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DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, AND CERTAIN INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1986

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

ON

H.R. 3038

AN ACT MAKING APPROPRIATIONS FOR THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, AND FOR SUNDRY INDEPENDENT AGENCIES, BOARDS, COMMISSIONS, CORPORATIONS, AND OFFICES FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1986, AND FOR OTHER PURPOSES

PART 2—(Pages 871–1342)

AMERICAN BATTLE MONUMENTS COMMISSION
ARMY CEMETERIAL EXPENSES
CONSUMER INFORMATION CENTER
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
ENVIRONMENTAL PROTECTION AGENCY
FEDERAL EMERGENCY MANAGEMENT AGENCY
FEDERAL HOME LOAN BANK BOARD
NATIONAL CREDIT UNION ADMINISTRATION
NATIONAL INSTITUTE OF BUILDING SCIENCES
NEIGHBORHOOD REINVESTMENT CORPORATION
OFFICE OF CONSUMER AFFAIRS
SELECTIVE SERVICE SYSTEM

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CONTENTS

WEDNESDAY, MARCH 13, 1985

Department of Health and Human Services: Page
    Office of Consumer Affairs 871
Neighborhood Reinvestment Corporation 893
American Battle Monuments Commission 949
Department of Defense—Civil: Department of the Army:
    Army cemeterial expenses 957
General Services Administration:
    Consumer Information Center 969
National Credit Union Administration 995
Federal Home Loan Bank Board 1003
National Institute of Building Sciences 1049
Selective Service System 1067

WEDNESDAY, APRIL 24, 1985

Federal Emergency Management Agency 1091
Environmental Protection Agency 1179

THURSDAY, APRIL 25, 1985

Department of Housing and Urban Development 1247

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT-INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1986

WEDNESDAY, MARCH 13, 1985

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10 a.m. in room SD–124, Dirksen Senate Office Building, Hon. Jake Garn (chairman) presiding.

Present: Senators Garn and Proxmire.

OFFICE OF CONSUMER AFFAIRS

STATEMENT OF MS. VIRGINIA H. KNAUER, SPECIAL ADVISER TO THE PRESIDENT FOR CONSUMER AFFAIRS, AND DIRECTOR, U.S. OFFICE OF CONSUMER AFFAIRS

ACCOMPANIED BY:

- ROBERT F. STEEVES, DEPUTY DIRECTOR, U.S. OFFICE OF CONSUMER AFFAIRS
- FRANK R. MARVIN, DIRECTOR, MANAGEMENT STAFF, U.S. OFFICE OF CONSUMER AFFAIRS
- JOHN T. HOPKINS, DIRECTOR, DIVISION OF OS BUDGET SERVICES, DEPARTMENT OF HEALTH AND HUMAN SERVICES

INTRODUCTORY REMARKS

Senator GARN. The subcommittee will come to order.

Good morning. This is the first hearing of the HUD-Independent Agencies Subcommittee for the fiscal year 1986 budget. We have nine different agencies on the agenda this morning. I urge all of you to be as brief as possible. We certainly will include all of your statements in the record. Many of my questions, as well, will be submitted for response for the record.

The combined budget request for these nine agencies totals about $70 million, or about one-seventh of 1 percent of the total programs within the subcommittee's jurisdiction. However, the varied nature of your activities and the significant services you provide the American public are greatly out of proportion to your stated budgets. On behalf of the subcommittee, I wish to welcome all of you.

I would further like to apologize for the scheduling changes that have been necessary this year. I appreciate you coming in on short notice. I am sure most of you know I have been engaged in some rather in-depth oversight examination of one of the agencies this subcommittee oversees, and they seem to be having some difficulties in arranging transportation for this oversight activity. [Laughter.]

So sooner or later I will, maybe, get to have that transportation.

But our first agency this morning is the Office of Consumer Affairs.

Ms. Knauer, we are happy to have you with us again, and we will be happy to hear your statement at this time, unless Senator Proxmire has an opening statement he would wish to make.

Senator PROXMIRE. No, Mr. Chairman.

SUMMARY OF OPENING STATEMENT

Ms. KNAUER. Thank you, Mr. Chairman.

The full text of my opening statement and our formal justification detail past accomplishments and future plans for the U.S. Office of Consumer Affairs. But right now, Mr. Chairman and Senator Proxmire, I would like to point out just a few highlights.

Last year, my staff and I met on 230 occasions with constituent group leaders to listen, to identify needs, to suggest options, and to encourage these groups to work together on promising programs. As an example, one of our past outreach type efforts led to the formation of the Energy and Aging Consortium. They are the group working with utility companies to encourage voluntary contributions to help those less fortunate who can't meet utility payments.

In December 1984, consortium leaders and personnel of our Office, FDA, and the American Society of Testing and Materials, met and agreed on the need for thermometers to measure hypothermia. Most hospitals don't have them. The American Society of Testing and Materials is now working on a standard for such low-reading thermometers.

In 1986, we will concentrate our outreach efforts on such areas as reviewing the utilization of the Magnuson-Moss Warranty Act and encouraging the private sector to compete more actively in the sizable market for elderly and disabled consumers.

The highlight of our 1984 Consumer Education Program was National Consumers Week. More than 50 million Americans were reached by 3,000 programs across the country. We also sponsored the first National Consumer Education Roundtable which brought together leaders from business, academia, and government to develop strategies to address major current consumer education issues.

I submit for the committee's information the report developed on the outcome of the roundtable.

Our program of encouraging volunteer marketplace actions instead of Government regulation has worked. For example, through USOCA efforts, one of the major U.S. auto manufacturers was encouraged to promote its 5-mile-per-hour bumper in its advertising and on its auto window stickers in an attempt to make stronger bumpers a competitive market tool. Recently, it was announced that virtually the entire industry will return to the 5-mile-per-hour standard with the 1986 model year, notwithstanding the lower Government requirement. A similar parallel occurred with automobile tire tread wear guarantees. All of this is good information for consumers.

In 1986 we will be building on two recent conferences which brought together financial industry groups to discuss such issues as the effect on consumers of financial deregulation, such as lifeline banking services for the low-income people, pricing of services, and privacy. At the same time we will be encouraging other business and professional associations to examine the economic benefits of helping consumers resolve questions or problems arising from complaints about goods and service purchases.

Our media efforts will continue to include our monthly news letter, periodic publications, speeches, and media interviews. As a measure of our past efforts, Mr. Chairman, I am sure you will be interested to know that in 1984, we conducted 120 media interviews, presented about 126 speeches, distributed the Help Radio Series Program tapes to 1,800 radio stations, sent copies of our monthly news letter to 7,000 decision-makers, and provided for the distribution of some 900,000 publications through the Consumer Information Center.

In 1986, we will be working directly with the Consumer Information Center staff to increase distribution of generic publications developed through cooperative industry and Government efforts. A good example of the success of this effort is the joint USOCA, Consumers Information Center, and Bell Atlantic Companies publication to help consumers better understand recent changes in local and long-distance telephone service. And, incidentally, Bell Atlantic will cover the cost of printing and distribution.

With regard to international consumer activities, I will continue to head the U.S. delegation to the OECD's Committee on Consumer Policy and to monitor the international trade issues. My deputy, Robert Steeves, will continue his leadership role in negotiations on the proposed U.N. guidelines for consumer protection.

In summary, Mr. Chairman, the resources requested for 1986 will enable continuation of a positive, effective program on behalf of our Nation's consumers. I would certainly be happy to answer any questions you have.

[The statement follows:]

STATEMENT OF VIRGINIA H. KNAUER

Thank you, Mr. Chairman, for the opportunity to once again give an accounting of accomplishments of the staff of the U.S. Office of Consumer Affairs in representing the interests of consumers and to justify our budget request for fiscal year 1986.

We believe the $1,988,000 to employ some 33 persons and to cover other related office expenses in 1986 is consistent with our national consumer leadership role. The proposed reduction in 1986 of $108,000 and the equivalent of two full-time employees is in line with the governmentwide cost-cutting efforts in which each of us must share if our economic stability is to be maintained. We will continue to meet our responsibility of identifying needs and providing a forum for concerned parties to work together in a positive and cooperative effort. We will do so by allocating staff to those issues and activities having the highest potential to produce results for consumers and to achieve our stated goals.

Our justification provides a detailed view of accomplishments in 1984 and our plans for 1985 and 1986. But, right now I would like to point out some examples which clearly show the value of past accomplishments and why we should continue these education, information, and representational functions.

Last year my staff and I met on 230 occasions with constituent group leaders to listen, to identify needs, to suggest options, and to encourage these groups to work together on promising programs. As one example, our past efforts led to the formation of the Energy and Aging Consortium, an organization of Government utility trade association officials and leaders of consumer organizations to solve local energy problems. These groups are working together at the local level to establish energy funds, comprised of voluntary contributions, to help those less fortunate who can't meet utility payments. In December 1984, USOCA, with consortium leaders and the Food and Drug Administration, met with the American Society of Testing and Materials [ASTM] on the need for thermometers to measure hypothermia. ASTM is now working on a standard for such thermometers.

In 1986 we will concentrate our outreach efforts on commercial counterfeiting of consumer goods and services, health care—especially for women—the utilization of the Magnuson-Moss Warranty Act, and on encouraging the private sector to compete more actively in the sizeable market represented by elderly and disabled consumers.

As part of our priority of fostering consumer and economic education, USOCA sponsored the first National Consumer Education Roundtable which brought together consumer education leaders from business, academia, and government to identify major current consumer education issues and to develop strategies to address them. I submit for your information the report developed on the outcome of that roundtable. In another action, because military families are particularly vulnerable in the marketplace, we cosponsored with the U.S. Navy and Coast Guard a 4-day training workshop for 350 counselors from bases around the world.

In 1985 and 1986 we will continue our consumer education priority through such countrywide initiatives as National Consumers Week and stimulating research into techniques for practical and effective consumer education, functional literacy, and consumer skills.

As you know, it is the policy of this administration that marketplace and competitive forces should shape economic activity, and that Government intervention should be applied only as a last resort. Our program of encouraging voluntary actions to enhance consumer-related activities is based on that philosophy. It has worked. Through USOCA efforts, one of the major U.S. auto manufacturers was encouraged to promote its 5-mile-per-hour bumper in its advertising and on its auto window stickers in an attempt to make stronger bumpers a competitive marketplace tool. Recently it was announced that virtually the entire industry will return to the 5-mile-per-hour standard with the 1986 model year—notwithstanding the lower Government requirement. A similar parallel occurred with automobile tire treadwear warranties.

In 1986 we will be building on the most successful meetings of June 1984 in Dallas, TX, and January 1985 in Phoenix, AZ, on the consumer and the rapidly evolving financial services industry. We brought together banks, savings institutions, financial service companies, trade associations, consumer organizations, and government agencies, and began a productive dialog on lifeline banking services, pricing, privacy, and other important consumer concerns. We will be working to encourage an ongoing working group of conference participants to increase public awareness of innovative and exemplary efforts. At the same time we will be encouraging business and professional associations to examine the economic benefits of helping consumers resolve questions or problems arising from goods or service purchases.

Our comprehensive media efforts will continue to include our monthly newsletter, periodic publications such as the Consumer's Resource Handbook, speeches, and media interviews. We are now exploring closer working relationships with other Federal agencies to reach large numbers of audiences at modest cost. We will be working directly with the Consumer Information Center staff to increase distribution of generic publications developed through cooperative industry/Government efforts. A good example of this effort is a new publication developed jointly with Bell Atlantic on selecting long distance telephone service. Bell Atlantic will cover the cost of printing an initial press run of 100,000 copies and distributing them from the CIC Pueblo, CO, facility.

In legislative and regulatory areas, we will adhere to the policy of involvement in significant subject matters where a particular consumer perspective is not otherwise being adequately addressed and when USOCA participation would facilitate timely and equitable resolution of an issue. My staff and I are confident that, through selective involvement, encouraging others with similar views to take more visible positions, and application of computer technology, we can maintain an effective role.

With regard to international consumer activities, I will continue to head the U.S. delegation to the OECD Committee on Consumer Policy, and to monitor the international trade issues with particular impact upon consumers. My deputy, Robert Steeves, will continue his leadership role in negotiations on the proposed UN guidelines for consumer protection.

Finally, Mr. Chairman, we have always taken pride in using USOCA resources as catalysts in getting things done. We have been successful in encouraging other agencies and private-sector organizations to bear their fair share of costs in conferences, pilot programs, and information. Over the coming year we will explore new cooperative ventures with others, particularly with the private sector. We will encourage these groups to assume a larger share of the burden when such action would not compromise our mission or be otherwise counterproductive.

In summary, Mr. Chairman, the resources requested for 1986 will enable continuation of a positive, effective program on behalf of our Nation's consumers. I would be pleased to answer any questions you may have.

1986 REDUCTIONS

Senator GARN. Thank you very much.

Compared to some of the agencies under the subcommittee's jurisdiction, OCA is relatively unscathed in recommendations for cuts. What do you feel are the implications of the reduction of $108,000 in funding and the reduction equivalent to two full-time permanent time positions?

Ms. KNAUER. Actually, we took our cuts very early in this administration. Despite inflation, we are proposing a 1986 budget with about 25-percent less in funding and about 40 percent less in staffing than was proposed in the fiscal year 1982 budget proposed by President Carter.

The $108,000 reduction in funding and two fewer full-time permanent employees will result in devoting about one person less staffing effort during the year to the review of legislation and regulatory and policy proposals. We certainly expect there will be a continuation of the decline in the number of proposed regulatory changes impacting on consumers which would require staff analysis. And, we hope to be using computerized research capability and working very closely with the experts in the HHS personnel and management areas to help us meet our daily responsibilities. That would also allow us to eliminate one administrative position.

1986 PRIORITIES

Senator GARN. Last year you provided the subcommittee with a list of the top priorities for fiscal year 1985. Can you compare your priorities for 1986 and indicate changes from last year's priorities.

Ms. KNAUER. Mr. Chairman, our priorities remain unchanged. Our highest priority, of course, is to exercise a national leadership role in consumer education. In 1986, we will be seeking to build on the conclusions and recommendations of the consumer education leaders from academia, business, and government, who joined us in Detroit last summer for the first National Consumer Education Roundtable. We are going to stress the need for consumers to be more aware of international trade issues. In the coming year, we will be supporting OECD and, in particular, OECD's Consumer Policy Committee.

CONSUMER INFORMATION

Senator **Garn**. Your budget justification listing of program objectives indicates 30 percent of the Office's fiscal year 1986 funding will be used to develop consumer information to help consumers make appropriate marketplace choices.

Would you please describe the specific items that will be funded out of this $593,000?

Ms. **Knauer**. Well, Mr. Chairman, employee salaries and benefits account for $192,000 and the distribution of publications at the Consumer Information Center amounts to $310,000. The printing of our new monthly newsletter is $12,000, and the balance of $79,000 is mostly a share of total office costs. We will be pleased to provide a complete listing to you.

[The information follows:]

Details of consumer information costs

Personnel compensation and benefits	$192,000
Consumer Information Center charges	310,000
Consumer News	12,000
Press clipping service	2,000
Printing charges	6,000
Consumer's Resource Handbook	5,000
Travel	6,000
Standard level user charge	28,000
All other charges; e.g., communications, on a pro-rata basis	32,000
Total	593,000

INTERAGENCY ACTIONS

Senator **Garn**. During fiscal year 1983, you filed only a few formal comments and reviewed about 100 rulemaking agency regulatory proceedings. What was the level of activity in those areas during fiscal year 1984 and do you anticipate this will go down in fiscal year 1985?

Ms. **Knauer**. Mr. Chairman, USOCA increased the number of formal comments submitted from two in 1983 to six in fiscal year 1984. Moreover, we again reviewed about 100 agency rulemaking proceedings. We anticipate in 1985 filing at least as many as we filed last year and reviewing just as many proceedings.

Senator **Garn**. Could you provide for the record a list comparing fiscal years 1983, 1984, and 1985 estimates by Federal agencies or organizations and a brief description of the actions involved?

Ms. **Knauer**. Yes, Mr. Chairman, we will be very happy to do that.

[The information follows:]

LISTING OF REGULATORY COMMENTS

Fiscal Year 1983

1. Subject: Ex Party No. 347 (sub. No. 1)
Coal Rate Guidelines, Nationwide
Interstate Commerce Commission

Comment: Anticipating proposal would have substantial negative effect on consumer utility rates nationwide, USOCA suggested a consumer cost/benefit analysis be completed before close of the comment period.

2. Subject: Docket No. 80N-0314
Food Labeling; Declaration of Sodium Content on Foods and Label Claims for Foods on the Basis of Sodium Content
Food and Drug Administration

Comment: Supported proposed regulations to assure accurate and meaningful sodium information on food labels and to include potassium information in nutrition labeling on a voluntary basis.

Fiscal Year 1984

1. Subject: Tariffs: Oversales, Counter Signs
Civil Aeronautics Board

Comment: Favored simplifying and consolidating counter sign notices of airline consumer protection rules.

2. Subject: 16 CFR Part 1032: Commission Involvement in Voluntary Standards Activities
Consumer Product Safety Commission

Comment: Urged the Commission not to adopt this proposal which called for formally recognizing and supporting industry voluntary standards.

3. Subject: Docket No. R-0501
Credit Cards, Issuance and Liability
Federal Reserve System

Comment: Supported amending Regulation Z to apply its provisions on issuance and liability limitations for unauthorized use to all credit cards, notwithstanding that some of these cards may be generally exempt from other provisions of Regulation Z.

4. Subject: Docket No. R-0502
Electronic Fund Transfers
Federal Reserve System

Comment: Supported amendments to clarify the applicability of Regulation E to certain debit card transactions, expand institution's error resolution time period, and allow an alternative way of disclosing charges on accounts.

5. Subject: Docket No. 81N-9994: Food Labeling: Irradiation in the Production, Processing and Handling of Food
Food and Drug Administration

Comment: Supported FDA's proposed regulation to permit low-level irradiation of food to prolong storage and shelf life and to prevent insect infestation.

6. Subject: Docket No. 251, Notice 55: Uniform Tire Quality Grading Standards Effective Dates for Reimplementation of Treadwear Grading
Department of Transporation

Comment: Supported rapid reimplementation of tire grading procedures.

Fiscal Year 1985

1. Subject: Docket No. N-84-1472, FR-20-36
Criteria for Acceptability of Insured 10-Year Protection Plans: Contemplated Revisions
Department of Housing and Urban Development

Comment: Supported proposed revisions to the Department of Housing and Urban Development criteria for acceptability of insured 10-year protection plans to provide homebuyers with better protection against construction defects through viable insured warranty programs.

2. Subject: Retail Food Store Advertising and Market Practices
Federal Trade Commission

Comment: Proposed immediate modification of FTC rule to create new defense to charge of violatin prohibition against advertising items that become out of stock. Defense would permit retailers to establish that they routinely allow customers to choose between rainchecks and substitute goods of comparable value for out-of-stock items, at the same percentage price reduction as the out-of-stock advertised items.

3. Subject: Maryland Attorney General's Arbitration Program

Comment: Supported proposed changes to the Maryland Arbitration Program such as to start using volunteer arbitrators.

4. Subject: FDIC: Proposed Exemption from Provisions Prohibiting a Bank from Guaranteeing or Acting as Surety for the Obligations of Others
Federal Deposit Insurance Corporation

Comment: Supported proposed amendments to FDIC's regulations to allow check guaranty cards and to allow bank sponsorship of customers who desire to obtain credit cards from other banks.

Senator GARN. Thank you.

Senator Proxmire.

Senator PROXMIRE. Thank you, Mr. Chairman.

QUESTION OF EFFECTIVENESS

Ms. Knauer, it is good to see you again. You have been a fine administrator for a long time. I certainly respect you greatly.

Ms. KNAUER. Thank you.

Senator PROXMIRE. But I am wondering whether or not we wouldn't be just as well off if we abolished your agency completely, and the reason I say that is because it is hard for me to see your agency is doing anything that is really very significant for the consumer. Your budget is about the size of one successful 7-11 store—one, not a series, but one. It is a very, very small budget. I like that idea, but when you consider the fact that we have 230 million consumers, and we give you in the appropriation about one-half of 1 cent per year for each consumer, it is hard for me to see that what you are doing has any effect at all. If we abolished you, obviously the public relations operations by these various industries would continue. It seems to me you enhance those to some extent. Obviously, you can't have a very big input with the tiny appropriation you have.

I just wonder if the so-called national leadership role in consumer education amounts to anything other than just a statement that sounds good to people who say, "Well, we ought to represent the consumer."

Ms. KNAUER. Senator, I am glad you appreciate how much we do with our small budget, but we have learned——

Senator PROXMIRE. I appreciate your small budget. I am not appreciative how much you do.

Ms. KNAUER. Let's hope you do when I am finished. What we do is maximize this budget by reaching out into the private sector and involving many people. We act as a catalyst to bring people together who have not worked together and then leave a framework for them to run various coalitions and consortiums that help many, many consumers. Our outreach through the media has been substantial, and we feel we make a major impact on consumers.

EXAMPLES OF ACCOMPLISHMENTS

Senator PROXMIRE. Give me an example of one or two instances where you have really changed the course of consumer protection, or consumer advantage based on your intervention.

Ms. KNAUER. Well, just take the item I mentioned in my opening statement. We found that one of our major auto manufacturers retained the 5-mile bumper but was not publicizing it. Five-mile bumpers reduce damage to consumers' cars, better than do 2½-mile bumpers.

Senator PROXMIRE. Did you see the article in the paper the other day, either the Wall Street Journal or New York Times, showing the number of makes of American cars that would meet the 5-mile-an-hour bumper test? It showed practically none of them, one foreign car that did, and possibly one American car out of a long list. The rest were regarded as poor. What kind of progress is that?

Ms. KNAUER. Well, I think it certainly is a great deal of progress to move from a 2½-mile to 5-mile-an-hour bumper.

Senator PROXMIRE. But they weren't able to meet it.

Ms. KNAUER. Certainly the 5 mile provides a greater degree of protection than the 2-mile bumper. I see my deputy wants to add something.

Mr. STEEVES. In response to your question, Senator, a couple of areas where the Office of Consumer Affairs has made a significant difference, I would cite the role of the Office in encouraging voluntary sodium labeling in the listing of sodium in food. I would cite the activities of the Office in the area of counterfeiting of consumer products in addition to some of the issues we have raised there. I would cite the activities of both Ms. Knauer and myself on some of the international consumer issues where we have worked in the United Nations and in the OECD operations. I would cite our contribution to the development of attention on the issue of hypothermia. I would cite our activity in regard to the Consumer's Resource Handbook which, I think, has saved the Government and individuals many times our budget expenditure in actual——

Senator PROXMIRE. That list is helpful. I tell you, for the record, can you supply the committee with what you think are the best contributions you have? I appreciate that.

Ms. KNAUER. Yes, we would be glad to do that, Senator.

[The list follows:]

SIGNIFICANT ACCOMPLISHMENTS OF THE OFFICE OF CONSUMER AFFAIRS

Resolving Marketplace Problems

- Long before it became a widely recognized problem, USOCA had identified the potential hazards, economic loss, and fraud posed by counterfeit products as an important issue to consumers. USOCA personnel met with industry and consumer officials to encourage development of special and cooperative publications and programs. USOCA also developed and submitted this issue to the OECD Committee on Consumer Policy where it is pending as a future work project. A program on the impact of trade on consumers which USOCA sponsored during National Consumers Week-1983 resulted in the inclusion of a consumer perspective and constituency in the work of the developing Anticounterfeiting Coalition. In 1984 USOCA brought the counterfeiting issue to the attention of the average consumer through the media. Also in 1984, USOCA initiated and developed, with the help and support of the Anticounterfeiting Coalition and U.S. Customs Service, an exhibit on counterfeits which ran concurrently with the World's Fair in New Orleans, Louisiana. Customs' officials estimated that about 1,000 persons viewed the display daily for almost five months.

  USOCA was the first government agency to identify the emergence of counterfeit-proof technology systems as a major potential deterrent to counterfeits. In mid-1984, five corporations in the business of developing these systems were identified. Today a dozen have been located. USOCA has disseminated this new technology to selected government agencies who are experiencing significant counterfeit problems in government purchases. Thus, if this technology is established as a credible deterrent in government, it will be equally available for use to protect consumers from counterfeits, too.

- USOCA brought together leaders in the banking industry and the consumer affairs field to discuss one of the major consumer issues of this decade -- the effect of financial deregulation on consumers, including problems of pricing, questions about the need of lifeline services, and loss of banking services. The result of this dialog was an increased understanding of consumer concerns by the banking industry, and an increased understanding by consumer leaders of the competitive pressures on the banking industry because of deregulation. The industry cosponsors of these meetings are now developing working groups to continue the dialog started in these two conferences.

- Under USOCA leadership, in May 1984 a White House meeting was held to focus national attention on consumer fraud in the commodities industry. Components of a coordinated campaign announced by the National Futures Association and the Commodity Futures Trading Commission included development of a consumer education program, establishment of a commodities fraud clearinghouse, swift and forceful action by NFA against improper member activities, and cooperative efforts to draft a Model State Commodity Code. The meeting received extensive national media coverage.

- USOCA personnel held a briefing for Federal regulators on the burgeoning but troubled financial planning profession and, with the cooperation of the International Association for Financial Planning, identified potential consumer problems. The session gave regulators an overview of the voluntary industry efforts to regulate itself and an opportunity to ask questions of the industry to assess the success of this self-regulatory effort. There had been no previous contact between the Association and many of the regulators who attended.

- Observation and suggestions by the USOCA staff sparked an advertising and consumer awareness campaign by one major auto manufacturer which showed that the manufacturer's 5 mph bumper was a competitive tool. All major American auto manufacturers have now announced they will restore the 5 mph bumper for their 1986 cars. While there is some confusion among consumers on the definition of a "5 mph bumper," it is clear that the planned bumpers will provide auto damage protection beyond the 2.5 mph current Federal standard, and it is generally anticipated that most will provide protection equivalent to the old 5 mph standard, except as to damage to the bumper itself.

- As part of USOCA efforts to foster voluntary action by responsible businesses in lieu of regulation, excellent progress is being made in encouraging the tire industry to use treadwear as a competitive tool. Through USOCA efforts, one tire manufacturer established a 55,000 mile warranty on treadwear and road hazards, a first in this industry. Competition is forcing other manufacturers to adopt a similar marketing strategy for warranties which significantly complement the NHTSA tire grading standards recently reinstated by the U.S. Court of Appeals action.

Improving the Handling of Consumer Complaints

- On February 15, 1985 USOCA conducted its fourth biennial Constituent Resource Exposition in the Cannon House Caucus Room which brought together representatives of 36 Federal agencies and more than 1,000 Congressional staff members to discuss ways to insure fast and effective handling of constituent complaints and requests for information. Two thousand copies of the Consumer Liaison Handbook were distributed. The Handbook lists names and telephone numbers of key Congressional liaison personnel in 55 Federal agencies. It is so unique and accurate that the House Administrative Committee staff has indicated a desire to include the Handbook in its computerized House Information System.

- USOCA and five other members of the Consumer Affairs Council are funding a year-long update of the landmark study: "Consumer Complaint Handling in America." From a historic standpoint, one of the most significant accomplishments of USOCA and predecessor organizations was conceiving and encouraging Federal agencies to join together in an initial appraisal of the handling of consumer complaints in America by government, business and voluntary groups. The initial study, the first and only one of its kind, led to the establishment of basic standards for handling complaints by Federal agencies as part of Executive Order 12160. It also led to a series of follow-on studies by the business sector which proved that there are economic benefits from responsible complaint handling. The study recommendations also have become a model for state and local governments and voluntary groups.

- USOCA personnel are recognized by Congressional offices for their unusual expertise and effectiveness in complaint handling. While

USOCA encourages consumer complaints to be handled through an orderly process beginning at the retail level, annually about 2,000 complaints from individuals are received by USOCA. Many of these are from Congressional offices.

Encouraging Development of Consumer Publications

- In the 1984 hearing before the House HUD-Independent Agencies Appropriations Subcommittee, concern was expressed over the confusion and difficulty in understanding monthly telephone statements. In response to this problem and to address other issues of local and long distance telephone service, the United States Office of Consumer Affairs, the Consumer Information Center and the Bell Atlantic Companies developed a "Consumers Guide to Telephone Service." 100,000 copies of the first printing will soon be available for distribution through CIC. All printing and distribution costs will be covered by Bell Atlantic.

- This fiscal year USOCA will update and reprint the Consumer's Resource Handbook, a "what to do, where to go" guide to persons who have a problem in purchasing goods and services. Through the assistance of as many as 20 Federal agencies, almost five million copies of previous editions have guided consumers with problems directly to the most appropriate source of help. It is a proven, valuable tool for resolving consumer disputes in the public and private sectors. It also cuts government costs and reduces citizen frustration. Letters misdirected to Federal agencies cost taxpayers millions of dollars each year.

Fostering Consumer Education

- It is increasingly recognized that there is a widespread lack of basic consumer skills. This fact led to the decision to make consumer and economic education the highest priority of USOCA. Recent data suggests that many persons simply do not have the basic knowledge and skills to deal effectively in our complex marketplace. A nationwide survey of 17-year-olds taken by the Education Commission of the States showed that most could not define the word "inflation." Only 30 percent understood unit pricing. One-fourth thought that government guarantees a profit for business, and only 17 percent knew that the Better Business Bureau was not a law enforcement agency. "National Consumers Week" and other fundamental policy related initiatives are being used by USOCA to meet this need.

  President Reagan has proclaimed April 21-28, 1985 as the fourth annual National Consumers Week. The emphasis is again on action at the state and local levels. The effectiveness of National Consumers Week and USOCA coordinating efforts is demonstrated by the fact that last year more than 3,000 individual activities were undertaken, reaching some 50 million persons across the country.

- USOCA has a continuing series of pilot programs to improve basic consumer education. For example:

  - USOCA conducted a two-day meeting at the University of Detroit of nationally known consumer education experts to review priority needs to consumer education. The report on that Roundtable presented during the Senate Appropriations Subcommittee hearing will soon be publicly released to encourage further cooperative programs by business, education and consumer leaders to further understanding of the need and value of consumer and economic education.

-- The U.S. Navy, U.S. Coast Guard and USOCA cosponsored a special four-day training workshop on financial counseling for over 350 family service counselors from U.S. military bases throughout the world. At the encouragement of USOCA, the U.S. Army plans to expand personal money management information, training and counseling to all military personnel and their families.

-- Avon Products, Inc., the General Federation of Women's Clubs and USOCA cosponsored a two-year national project to foster community level consumer education and information programs. As many as 12,000 local clubs may be involved.

-- A unique pilot grant program to foster consumer education in elementary and high schools in a 22-county area was sponsored by the Washington Division of the MacDonald's Corporation and USOCA.

International Consumer Representation Activities

o The Deputy Director, USOCA served as the chief negotiator for the United States for the proposed set of *Guidelines for Consumer Protection* under consideration at the United Nations. He also served as chief negotiator for the United States at prior meetings on this issue held by the UN Economic and Social Council in Geneva, Switzerland and New York City.

o Through the efforts of the USOCA staff, a joint day-long briefing was given by USOCA and the United States Mission to the United Nations for major company executives on the potential impact of United Nations regulatory activity on international trade and on consumers.

o At the request of USIA, the USOCA Director traveled to Spain, France and Belgium to counsel government leaders on development of consumer policy and on the impact of trade policy on consumers.

Meeting Specialized Needs of Disadvantaged Consumers

o USOCA personnel arranged with the Treasury Department to publicize the availability of the Consumer Product Safety Commission's new *Home Safety Checklist* (printed by the Administration on Aging) on 36 milion Social Security check envelopes to be distributed in May 1985.

o USOCA was a principal in organizing the National Energy and Aging Consortium (NEAC) whose membership now includes Federal agencies, national voluntary groups and energy industry organizations, and whose purpose is to find ways to resolve or alleviate the energy related problems of older consumers. USOCA was the motivating force in securing business involvement. To date, the NEAC has held three national conferences which have identified problems and potential solutions, with many of the latter being implemented, as a result, in cities across the country. For example:

-- NEAC, working with USOCA and the Center for Environmental Physiology has focused the nation's attention on the threats to the life of older persons posed by hypothermia and heat stress. Because of its involvement in NEAC, the 18 million member American Association of Retired Persons has designed and printed posters on prevention of these conditions.

-- The Administration on Aging, American Gas Association, USOCA and the Center for Environmental Physiology worked to establish model projects in eight cities as part of the National Education Campaign on Hypothermia and Heat Stress.

-- After USOCA persuaded FDA of the need for low reading thermometers to detect hypothermia, representatives of USOCA, NEAC, FDA and the Center for Environemtal Physiology met with the Thermometry Committee of the American Society for Testing and Materials which sets standards for U.S. thermometers. The Committee agreed to pursue development of standards for low reading thermometers to help prevent the estimated 25,000 to 30,000 deaths from hypothermia annually.

Improving the Skills of Federal Consumer Personnel

- A development program has been established under the auspices of the Consumer Afairs Council to upgrade the skills of Federal consumer affairs personnel in meeting the standards Executive Order 12160 sets for Federal agency responsiveness to consumers. To date, four separate training sessions under the program have covered (1) working more effectively with state and local officials, (2) complaint handling, (3) consumer publications, and (4) effective use of new electronic media for consumer education.

Legislative, Regulatory and Policy Development Issues

- Voluntary Product Safety Standards. USOCA comments did not support a proposal by the Consumer Product Safety Commission to recognize formally a voluntary product safety standard. USOCA pointed out that the private sector has willingly developed voluntary standards where needed, and this proposed recognition process would only invite unnecessary complications. The Commission, citing USOCA comments, voted against adopting the proposal.

- Electronic Fund Transfers and Truth in Lending. USOCA commented on the Federal Reserve Board's proposals clarifying a rather complicated consumer protection structure concerning the applicability of Regulation Z's credit card liability provisions to telephone calling cards, and Regulation E's applicability to debit card transactions. While the Board had these proposals under consideration, USOCA was vigilant to correct public misinformation given by the media. For example, a letter from USOCA Director Virginia Knauer appeared in the Editorial section of the New York Times correcting an earlier article in their paper on consumer liability for unauthorized use of telephone calling cards. The changes in Regulations Z and E were subsequently adopted.

- Textile, Fiber and Wool Products Identification Improvment Act (P.L. 98-417, Title III). The USOCA suggestion that the bill contain more detailed language concerning the location of labels on textile and wool products was adopted, as was the suggestion for a proposed date of effectiveness to allow an orderly, efficient transition period for industry compliance under the new law.

- Toy Safety Act of 1984 (P.L. 98-491). USOCA was the sole Administration witness on this bill to appear before the Senate Consumer Subcommittee. USOCA delivered Administration testimony in support of the bill and later encouraged the President to sign the enrolled bill into law. These measures by USOCA helped passage of this Act at a crucial time late in the 98th Congress, and thus prevented a possible holdover for the 99th Congress, or no action at all.

o FTC Rule 424 - Retail Food Store Advertising and Marketing Practices. In response to the FTC's request for public comment on whether to rescind or revise Rule 424, USOCA suggested that the FTC not repeal, but rather modify, the rule to permit food stores routinely to allow customers to choose between rainchecks and the substitution of comparable goods at the same percentage price reduction as the out-of-stock items. Early reaction from consumer and industry sources and press accounts indicate that the USOCA position has been a rallying point for a resolution other than repeal that otherwise might have been viewed as unfeasible.

o Credit Card Surcharges. In 1981 USOCA suported favorable Presidential action on the Cash Discount Act, which became law, and expressed support for permanent removal of the surcharge ban. In 1984, when the ban was due to expire, USOCA recommended that the Administration support legislation lifting the ban so that merchants could pass on the higher cost of credit sales transactions to the actual users of credit. Congress allowed the ban to lapse.

o Sodium. The USOCA staff work within the Administration made the difference in policy analysis which resulted in a program of voluntary labeling of sodium in processed foods and elimination of the disincentive in other existing FDA rules related to dietary claims that would have required full nutrient labeling if sodium were not disclosed. In addition, our comments submitted to FDA on proposed rules for sodium labeling independently suggested clarifications of standards for sodium claims, which were incorporated in the final rule. To help generate consumer demand, USOCA also assisted food processors in getting media coverage of the introduction of reduced sodium foods.

o Development of Voluntary Standards. A senior USOCA officer provided a consumer perspective during meetings of the Interagency Committee on Standards Policy which led to issuance of Circular A-119 by the Office of Management and Budget. The Circular provides policy and administrative guidance to Federal agencies on using voluntary standards for procurement and regulatory purposes, on involvement of private sector organizations to develop such standards, and on coordinating Executive Branch participation.

CONCLUSION

The decision for USOCA to become involved in specific issues is based upon such factors as the number of people affected, magnitude and severity of the issue, the economic impact on citizens, nature of other agency involvement, USOCA resources required, and the likelihood of USOCA making a positive impact. Unlike other Federal agencies and non-governmental groups whose interest is governed in large measure by their statutory authorization or competing constituency's interest, USOCA has only one interest in policy and program matters -- the consumer perspective. In its unique national role, USOCA can and does represent the interest of consumers. In the absence of USOCA, there would be no government-wide consumer office to perform that function.

INDUSTRY-USOCA COOPERATIVE PUBLICATIONS

Senator **Proxmire**. I apologize to the chairman because he has a number of witnesses. I would like to ask two more questions.

When you prepare a publication for a private organization, do you retain complete editorial control?

Ms. **Knauer**. Complete. All they get is a credit line on the back or inside.

Senator **Proxmire**. Does the private organization pay for all costs, including the salaries of the people who prepare it?

Ms. **Knauer**. They pay for the printing and, in quite a few cases, for the distribution. No, the material is largely prepared by our staff or we may involve outside experts.

Senator **Proxmire**. Thank you. Thank you, Mr. Chairman.

Senator **Garn**. Thank you, Ms. Knauer. We appreciate your willingness to be here.

SUBMITTED QUESTIONS

[The following questions were not asked at the hearing but were submitted to the Office for response for the record:]

QUESTIONS SUBMITTED BY SENATOR GARN

FEDERAL HANDLING OF CONSUMER COMPLAINTS

Question: You previously indicated that there might be a follow-up to the 1979 consumer complaint study. Would you please bring us up to date on the Consumer Affairs Council initiative to update "Consumer Complaint Handling in America"?

Answer: Five member agencies of the Consumer Affairs Council have joined with USOCA to fund an update study of the 1974-1979 landmark look at complaint handling practices by government, business and voluntary groups. A $106,000 competitive contract was award to Technical Assistance Research Programs (TARP), Washington, D. C., and is being funded by USOCA, Consumer Product Safety Commission, United States Postal Service, Federal Trade Commission, Consumer Information Center and the Department of Health and Human Services.

The update study will provide an overview of what has happened in complaint handling as a result of changes in technological advances in information handling, priorities by government at all levels, and the evolution of complaint handling mechanisms. Specifically, the study will identify improvement and deficiencies in complaint handling systems, exemplary programs, changes in consumer behavior, and make recommendations for improvements and changes in both the public and private sectors. TARP is currently completing the Federal portion of the study and expects to survey the state and local government agencies, voluntary groups and business within the next few weeks. The study will be completed by September 30, 1985.

CONSUMER INFORMATION CENTER

Question: You were the founder of the Consumer Information Center in 1970 under President Nixon. Last year the Consumer Information Center was proposing some significant changes in its program direction. You indicated at that time that you had some concerns with that change in direction. Would you please comment on what they have accomplished, to date, and provide your view of their future plans?

Answer: We are pleased that the 1985 program provides for continuation of the historic consumer liaison and publications marketing and distribution activities, and that they are primarily funded out of direct appropriations. We believe the program for 1986 continues this balanced approach. However, we do look forward to reviewing the results of the trial project to distribute a wider range of Federal information to a wider variety of audiences.

Question: Do you plan to update the Consumer's Resource Handbook?

Answer: Yes -- our supplies of the January 1984 edition are almost exhausted, and a recent sampling of organizations listed in the book suggests a revision is needed. We are planning to released an updated version in the fall.

Question:	How many do you expect to distribute?
Answer:	Federal agency participation and funding have varied as has the actual cost of printing due to such factors as paper cost. We estimate a press run of one to one-and-one half million copies for the next issue.
Question:	What are some of the channels that you will use to distribute the copies?
Answer:	We expect distribution will be the same as in the past. Each agency will distribute copies. A larger number will be distributed from the Consumer Information Center and, of course, we will distribute copies to Congressional offices here in Washington and to the district offices as well.
Question:	Have you performed any recent evaluation to determine which types of information the consumer considers most useful and which types of information are used most frequently?
Answer:	Quite frankly, sir, we do not have funds nor do we believe that a formal survey of consumer interest is necessary. However, hundreds of comments and suggestions from responsible professionals handling consumer complaints, leaders of constituent groups and individual consumers will be used as the basis for revisions, format changes, etc. In addition, we have base data on several previous editions of the Handbook and staff experience to guide us.

TRAVEL AND TRANSPORTATION

Question:	Your budget justification indicates a budget request of $45,000 for travel and transportation for FY 1986. This is the same as the FY 1985 figure. Would you please provide an indication of the distribution of these funds for FY 1983 and FY 1984 by USOCA divisions, and your anticipated distribution for FY 1985 and FY 1986?
Answer:	FY 1983 and FY 1984 travel funds were used as follows.

	FY 1983	FY 1984
Executive Office	$12,000	$11,700
General Counsel	--	1,800
Division of Policy Analysis	4,600	5,500
Division of Consumer Education	3,800	6,500
Division of Organizational Liaison	4,200	10,000
Division of Information	2,400	4,500
Management Staff	1,000	3,000
Total	$28,000	$43,000

Anticipated usage of FY 1985 and FY 1986 travel funds is as follows.

	FY 1985	FY 1986
Executive Office	$12,000	$12,000
General Counsel	2,000	2,000
Division of Policy Analysis	6,000	6,000

Division of Policy Analysis	6,000	6,000
Division of Consumer Education	7,000	7,000
Division of Organizational Liaison	10,000	10,000
Division of Information	5,000	5,000
Management Staff	3,000	3,000
Total	$45,000	$45,000

NATIONAL CONSUMERS WEEK

Question: You have mentioned National Consumers Week in previous testimony. Please update your input as to the Federal role in National Consumers Week and why it is important for the Federal government to be so involved.

Answer: Most agencies of the Federal government have consumer affairs missions of one type or another and belong to the Consumer Affairs Council created by Presidential Executive Order. As National Consumers Week is an Executive Branch initiative, we have in the past involved these agencies. It is important in that the week allows them to make a major informational push as to consumer rights, protections and responsibilities at least once a year with colleagues from state and local governments and with the private and academic sectors. Past activities have included personal counseling, educational seminars, print and media promotions about available services, providing speakers for community meetings and announcements about new or changing agency programs on behalf of consumers.

CONSTITUENT RESOURCE EXPOSITION

Question: Your previous opening statement referred to the 1983 Constituent Resource Exposition at which more than 1,400 Congressional staffers learned how to provide more efficient constituent liaison on consumer issues. Would you please describe, in more detail, the information on the meeting during FY 1985?

Answer: The 1985 Congressonal Resource Expositon was a highly successful and extremely well attended event. Representatives from more than thirty agencies were on hand to answer agency related questions and provide attendees with program information and publications that will be very useful in providing constituent services. The demand for our publication, the Congressional Liaison Handbook far exceeded the supply we had on hand, and we are now in the process of mailing hundreds of copies of the Handbook to Congressional offices here and in the districts.

QUESTION SUBMITTED BY SENATOR LEAHY

ACTIVITIES IN STATE OF VERMONT

Question: Please describe all activities undertaken, directly or indirectly, or facilities owned, leased or otherwise controlled in the State of Vermont by USOCA.

Answer: The program activities described in the formal printed budget justification affect citizens of the State of Vermont essentially to the same extent as all U.S. citizens. No facilities in Vermont are owned, leased or controlled directly or indirectly by the United States Office of Consumer Affairs.

QUESTIONS SUBMITTED BY SENATOR PROXMIRE

CONSUMER ORGANIZATION PARTICIPATION IN NATIONAL CONSUMERS WEEK

Question: Mrs. Knauer, do you plan to invite consumer organizations to participate in this year's "National Consumers Week?" If not, why not.

Answer: As in the past, consumer organizations will indeed be asked to participate in National Consumers Week 1985. We have already sent invitations to consumer organizations to participate in this year's celebration. Grassroots and state and local consumer organizations from every state in the nation have been notified of the week through either Consumer News, our office newsletter which goes out to 7,000 decisionmakers including consumer leaders, or through direct mailings or both.

In Washington, consumer organizations will participate in the NCW "kick-off" at which some one hundred leaders from government and constituent organizations will join in introductory activities, including public release of the Report of the first National Consumer Education Roundtable and a mini-conference on the Week's activities and status of consumer education nationally.

We estimate that in last year's National Consumers Week programs, 50 million Americans were reached by more than 3,000 community-based activities in which constituent groups, business, government and individual citizens joined together in state and local level programs. The participation of consumer groups in 1984 is exemplified by the following.

-- The Alabama Coalition for Consumer Education conducted an all-day workshop for military social service workers on credit, banking and fair debt collection.

-- Community Action, Inc. scheduled a series of auto clinics in Haverhill, Massachusetts

- -- The Consumer Education and Information Association of Virginia conducted its annual conference feature health care issues in Norfolk.
- -- The Harlem Consumer Education Council sponsored a conference designed to inform low income and elderly citizens of their consumer rights.
- -- The Maryland Coalition for Consumer Education disseminated consumer education information at point-of-purchase sites and held consumer workshops for the public.
- -- The Rhode Island Consumer's Council sponsored its second annual Consumer Education Fair in Providence.
- -- The Seattle, Washington Consumer Protection Roundtable sponsored a luncheon and presented its Consumer Advocate Award.

In 1985 we look forward to similar extensive participation by consumer groups and individual citizens.

NEIGHBORHOOD REINVESTMENT CORPORATION

STATEMENT OF WILLIAM A. WHITESIDE, EXECUTIVE DIRECTOR, NEIGHBORHOOD REINVESTMENT CORPORATION

ACCOMPANIED BY GEORGE KNIGHT, DEPUTY EXECUTIVE DIRECTOR

BUDGET REQUEST

Senator GARN. Next I would like to invite the Neighborhood Reinvestment Corporation to testify. Our next agency this morning is the Neighborhood Reinvestment Corporation.

Bill, it is nice to have you before the committee again.

The fiscal year 1986 budget request for the Corporation is $14,669,000, a 5.4-percent reduction from the current fiscal year.

PREPARED STATEMENT

We have your prepared statement and will include it in the record and please proceed with your opening remarks.

[The statement follows:]

STATEMENT OF WILLIAM A. WHITESIDE

Mr. Chairman and members of the Committee, I welcome the opportunity to come before you to report on the Neighborhood Reinvestment Corporation's fiscal 1986 budget request of $14,669,000. This figure represents a 5.4% reduction in our level of appropriated funding from fiscal year 1985. When reductions in other sources of income are considered, there is an 8.8% reduction in income, and when projected increases in cost levels are factored in, we expect a total 12.7% reduction in current services.

We are in our fifteenth year of neighborhood revitalization work, beginning, as you know, as an office of the Federal Home Loan Bank Board, expanding under the Urban Reinvestment Task Force, and operating for the past six years as the Congressionally chartered Neighborhood Reinvestment Corporation, the legislation for which you authored.

Over the years we have been able to do what experts told us was impossible. We have been able not only to reverse decline in scores of previously declining lower income neighborhoods through the dedicated work of Neighborhood Housing Services (NHS) partnerships, but it is happening without large-scale displacement of lower income families. We are seeing steadily increasing numbers of these NHS neighborhoods achieve a healthy, self-reliant state. They are now marked by substantial improvements in housing stock and other physical characteristics, a normally functioning real estate market, reduced crime, strengthened community organizations, and visible pride on the part of residents that they are living in a neighborhood of choice.

The value of the changes in human lives and spirit this is bringing about cannot be captured in dollar terms, but we are confident that the appropriated funds expended by the Neighborhood Reinvestment Corporation in this effort have been multiplied about thirty-fold in tangible local reinvestment.

Our progress has slowed, however, in recent years. The Neighborhood Reinvestment Corporation has found itself in a steady squeeze of declining real-dollar resources. Last year, for example, we served NHSs in 76% more neighborhoods than in 1980, with only 13% more staff members. This has resulted in a substantial "thinning out" of our services to existing NHSs, as well as a reduction in our ability to extend NHS services to additional neighborhoods needing them.

As another illustration of the Corporation's declining real-dollar resources, I would like to call to your attention the chart that follows. As you will note, in fiscal 1981, we had available from all sources $18,207,185 to support the Corporation's services. We project resources - in 1981 dollars - of $13,374,392 to support our work in fiscal 1986, a reduction in real dollars of 26.5%.

NEIGHBORHOOD REINVESTMENT CORPORATION
Sources and Uses of Funds - All Sources of Funds
Fiscal Years 1981 to 1986

	Actual				Proposed	Estimated	Estimated 1986 in
	1981	1982	1983	1984	1985 (Rev.)	1986	1981 Dollars
SOURCES:							
Congressional Appropriations	$12,459,000	$13,872,000	$15,512,000	$16,012,000	$15,512,000	$14,669,000	$11,676,524
Federal Home Loan Bank System	1,398,269	1,917,126[1]	380,596	400,000	400,000	200,000	159,200
Federal Reserve Board	...	...	400,000	400,000	400,000	200,000	159,200
Federal Deposit Insurance Corporation	...	...	200,000	...	...	...	...
Comptroller of the Currency	...	...	200,000	...	...	...	...
Interest Earnings	1,436,240	1,302,466	943,048	1,185,851	1,094,000	933,000	742,668
Project Development	776,067	670,924	350,536	486,806	600,000	500,000	398,000
Carry Forward from Previous Year	2,137,609	1,158,569	487,348	413,702[2]	318,000	300,000	238,800
Deobligation of Prior Year Undisbursed Grants	...	...	...	152,844	107,000	...	...
TOTAL SOURCES	$18,207,185	$18,921,085	$18,473,528	$19,051,203	$18,431,000	$16,802,000	$13,374,392
RESULTS:							
Neighborhood Reinvestment Activities							
Neighborhood Housing Services							
Starts	19	17	16	15	17	12	
Neighborhoods Being Served	143	173	192	199	216	226	
Cumulative Self-Reliant Neighborhoods	0	0	5	18	30	45	
Apartment Improvement Program							
Starts	6	4	6	1	4	2	
Neighborhoods Being Served	11	13	22	24	27	30	
Major Programmatic Component Starts[3]	7	16	16	14	10	7	
Neighborhood Reinvestment Operations							
Full Time Equivalent Staff[4]	208	226	208	197	209	200	
Neighborhood Program Activity							
NHS Loans ($000s)	8,959	11,203	12,622	14,982	17,500		
NHS Loan Sales to NHSA ($000s)	1,245	2,086	3,161	4,768	6,000		
New NHS Clients	15,886	19,775	37,650	48,317	56,100		
Apartment Improvement Units Rehabbed	1,313	1,452	2,472	3,192	5,000		
Apartment Improvement Reinvestment ($000s)	15,627	15,675	29,272	45,695	64,000		

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[1] Includes the sale of furniture located at 1700 G Street to Federal Home Loan Bank Board for $400,000.

[2] This figure includes a one-time adjustment to reconcile the budget carry-forward to the unrestricted fund balance of the audited FY 1984 financial statements.

[3] NPD (Neighborhood Preservation Development) includes Problem Properties Strategies, Insurance Full Partnership, Owner-Built Housing, Urban Lender Program, Energy Conservation, and Commercial Revitalization.

[4] This figure represents the average positions filled during the year.

Notwithstanding the foregoing context, we have a number of highlights to report:

1. THE POPULATION NHS SERVES

An analysis of the Neighborhood Housing Services of America secondary market loan portfolio shows that the average family income of the borrowers whose NHS loans were sold to NHSA was $12,160.

Comparisons with a few local 1980 median family incomes:

Baltimore -- average borrower family income: $6,696 which is 43% of the city and 31% of the SMSA.

Chicago -- average borrower family income: $11,700 which is 62% of the city and 48% of the SMSA.

Cleveland -- average borrower family income: $7,616 which is 48% of the city and 34% of the SMSA.

New Orleans -- average borrower family income: $11,760 which is 78% of the city and 61% of the SMSA.

St. Paul -- average borrower family income: $10,462 which is 50% of the city and 43% of the SMSA.

Washington, D.C. -- average borrower family income: $18,262 which is 96% of the city and 66% of the SMSA.

2. TRAINING, TECHNICAL SERVICES AND PROJECT DEVELOPMENT ASSISTANCE

Neighborhood Reinvestment not only helps initiate NHSs in additional communities, but provides operating NHSs with necessary training, technical services and project development assistance in order to ensure their continued viability and effectiveness.

Formal training programs are provided for NHS staff members. Training workshops are conducted for NHS board, staff and committee members. In addition, educational conferences are conducted for NHS board and staff members.

Neighborhood Reinvestment supplies NHSs with newsletters, manuals and guides, and sample materials.

Among the most valued services, services which have been necessarily reduced as our staff ratio has not been able to keep pace with the growth in the number of NHS neighborhoods, are:

1. Intensive effort services, such as neighborhood impact planning, fundraising assistance, internal systems analysis, crisis intervention and interim staffing; and

2. Project development assistance, such as assistance in developing:
   - o computer management of neighborhood inventories;
   - o restoration of historically significant buildings;
   - o moving vacant houses onto neighborhood sites;
   - o syndication of multi-family projects; and
   - o creation of subsidiary development corporations.

3. COMPLEMENTARY NHS TOOLS AND STRATEGIES

The complementary tools and strategies Neighborhood Reinvestment makes available to NHSs (through training and start-up grants) include:

- o the Apartment Improvement Program
- o Problem Properties Strategies
- o Owner Built Housing
- o Neighborhood Commercial Management Program
- o Residential Energy Conservation Services Program
- o Urban Lender Program
- o Insurance Industry Full Partnership
- o Neighborhood Preservation Projects

Owner Built Housing -- One representative tool NHS uses to revitalize neighborhoods, provide affordable housing, and capitalize on American initiative is our Owner Built Housing program.

Borrowing a concept from rural self-help housing, NHS translated it into urban Oakland, California, as one of our Neighborhood Preservation Projects. We have now spread this tool to 16 cities, and are ready to plunge into self-help rehab in an organized manner. Owner Built projects in some cities are entering Phase II and Phase III. Currently, there are 98 homes completed and occupied, and 124 units are in process. Let us share with you a profile of the owner-builder.

The owner-builder is typically a family of 30-year old parents with two children. They earn $24,000 with both parents working. This is approximately the 1983 national median family income. They work at blue collar jobs: warehouse worker, mechanic, clerk, messenger, baker, customer representative and secretary. They are renters who, to take advantage of this once-in-a-lifetime opportunity, work 40 hours a week, for 10 months, in addition to regular jobs, to build their home cooperatively with nine other families. They build it on a previously vacant, eyesore lot within the neighborhood. The NHS manages the process. It assembles the land, arranges the financing, and provides daily direction to the owner-builders. The proud owner-builders take occupancy of homes subject to a mortgage of $46,000 which is about 64% of the price of an average existing single-family home and about 50% of an average newly constructed one.

Collectively, 70% of these families are members of ethnic minorities.

4. RURAL NHSs

Would the "urban" NHS partnership model work in rural areas? That was the question five years ago. With solid operating experience by rural NHSs operating in communities ranging from 1,200 to 18,000 population, the answer is now a firm "yes." These NHSs are providing critical leadership on a community-wide basis to achieve a wide variety of revitalization goals.

Small staffs and incredible amounts of volunteer leadership, time and energy characterize these NHSs. They must address a wide range of housing, community and neighborhood issues including commercial and economic development.

The following examples indicate the scale, productivity and sheer tenacity of the rural NHSs.

A. **Richland Center, Wisconsin** (population 5,000)

Began serving clients in November 1982.

The NHS has originated $120,000 in loans from its revolving loan fund and local lenders have originated $120,500 in conventional loans to NHS clients. A total of 26 homes have been rehabilitated.

This was achieved with an operating budget of only $24,000. Private fundraising secured $11,500, and the balance of $12,500 was received from the City of Richland Center.

In its first year, the Richland Center NHS sold $38,000 of its loan portfolio to NHSA. It also undertook the following special projects:

The National Trust for Historic Preservation awarded the NHS a grant of $2,000 to study the reconstruction and restoration of the historic Hyatt Farmstead.

An equity conversion program to address the financial problems of elderly homeowners was financed by a $13,250 grant from the Wisconsin Department of Development.

The NHS applied for and received a $53,000 grant from the Wisconsin Conservation Corps to hire area unemployed youth for supervised work in a variety of public recreation and conservation projects.

B. Cattaraugus County, New York

Began serving clients in June 1982.

The NHS of Cattaraugus County, which calls itself the Rural Revitalization Corporation (R.R.C.), has originated six revolving fund loans, totaling $53,000, packaged 30 FmHA loans/grants and leveraged $63,000 in conventional loans. It has provided technical assistance to over 70 homeowners.

Operating with a $120,000 annual operating budget, only 10% of which is raised privately, the R.R.C. covers 1,600 square miles and a population of 104,000 (and includes sections of Erie and Wyoming Counties). The area includes 11 small cities, towns and villages, but R.R.C. concentrates its operations in four communities.

The villages of Gowanda, Springfield and Angola receive the services of R.R.C.'s circuit riding commercial strip manager, who provides help with promotions, joint advertising, rehab loans and facade improvement funds. The commercial strip manager administers a $20,000 revolving loan fund provided by Erie County.

In addition to this basic service delivery, the program has undertaken a variety of special projects. For instance, in the City of Salamanca, R.R.C. is organizing phase II of a cityscape program. The first phase (with technical assistance from Neighborhood Reinvestment) completed a facade restoration program which won national and international awards for design, planning and public/private partnership building. In phase II, leveraging dollar for dollar public/private funds, the R.R.C. and City will address 17 second-floor housing units, using $110,000 in funds provided by HUD.

Accepting the donation of a boarded up car dealership in the City of Olean, the R.R.C. facilitated its rehabilitation and sale to a day care facility.

To introduce its services to communities needing revitalization, R.R.C. helped residents organize and raise funds for three community-built playgrounds. Donations of materials and services exceeded $100,000.

R.R.C. is working to strengthen working relationships between the residents of Salamanca and the Seneca Nation of Native Americans. The old Seneca movie house in Salamanca is being restored by the Cattaraugus County Living Arts Association with R.R.C. and Senaca Nation participation. It will later become the site for joint Salamanca-Seneca Nation artistic and cultural projects.

To cope with flooding along Cattaraugus Creek, R.R.C. has organized a watershed project, securing the cooperation of government agencies, farmers, other landowners and the Seneca Nation, in addressing their mutual environmental problem.

C. **Vermont**

1. **East Valley NHS, Randolph, Vermont** (population 4,000)
   Began serving clients in April 1983.

In its first 15 months, the East Valley NHS originated 21 revolving fund loans totaling $162,775, and local lenders originated 17 conventional loans for NHS clients, totaling $200,000. The partnership members also completed an inventory of their neighborhood and are developing an impact strategy.

The NHS succeeded in raising $10,000 in private funds for its operating budget. Neighborhood Reinvestment provided the balance of $50,000 in an operating grant. Special projects have included: restoration of the East Randolph Community Hall. This has provided a focus for community involvement, with residents taking great pride in turning an eyesore into a community asset; $16,000 in cash and $30,000 in labor and in kind services was contributed to the project.

The East Valley NHS assisted in the rehabilitation and occupancy of three previously vacant structures, financing the projects with conventional loans.

2. **Barre, Vermont** (population 10,000)
   Began serving clients in October 1984.

The Barre NHS is operating in a neighborhood of 90 structures. The partnership has completed a neighborhood inventory, and an impact strategy. It is nearing completion of a $12,000 private fundraising effort. The balance of its $46,000 budget comes from the City of Barre.

In its first five months of operation it originated nine revolving fund loans totaling $65,434, and negotiated a gift of land from a local granite company for a neighborhood playground.

Besides the dramatic successes of rural NHSs in areas where they provide the only hope for revitalization and are often the only catalyst for community cooperation in a variety of undertakings, the major difference between rural NHSs and those in urban locations is that outside funds are required to supplement local public and private resources in operating the NHS. Raising those funds is challenging. Thus far, the primary resources have been state grants and HUD Small Cities Grants.

5. TOWARD THE GOAL OF NEIGHBORHOOD SELF-RELIANCE

As we have monitored the success of a number of NHSs in revitalizing their neighborhoods, and have abstracted "impact strategies" and "completion strategies" from their combined experience, we are studying the strategies which will systematize the setting and attaining of neighborhood goals, and have already begun sharing the results with operating NHSs and incorporating these expectations into the developmental process for new programs. We are introducing the following complementary decision-making strategies to NHSs in our conferences and training programs:

Continuing Leadership Recruitment, to involve neighbors -- the neighborhood experts -- in a sustained effort, either formal or informal, to steer their neighborhood toward a healthy, self-reliant state.

Neighborhood Inventory, to delineate a neighborhood's strengths and weaknesses, and establish a shared understanding of image, market and physical conditions and the extent of the challenge ahead;

Vision and Self-Reliance Standards, to clarify how residents want their "turned around" neighborhood to appear, and establish a consensus about the desirability and feasibility of standards and goals, both about the neighborhood's look and its level of social interaction;

Strategy, Resource Development and Decision-Making, to undertake a careful review of alternative impact strategies, and prioritize realistic and attainable goals which can be reassessed periodically to achieve the end product of a healthy neighborhood;

Implementation and Reporting, to track neighborhood impact, program progress and "stories worth telling" through data collection, inventory maps and a range of other systematic measures;

Managing and Maximizing the Action, to leverage impact through careful targeting of revitalization activities, and strategies that market the NHS neighborhood, both to itself and to the general community; and

Partial/Full Attainment of Neighborhood Goals, to celebrate the achievement of neighborhood impact goals, either in parts of the neighborhood or throughout, and define the residual services that will help a neighborhood to remain self-reliant.

Using the framework for neighborhood decision-making, NHS partners can assess how close their community is to its vision of itself as a healthy neighborhood. The original vision, impact goals and assessment measures work as policy yardsticks in determining when neighborhood goals are close to attainment. Since parts of a neighborhood often approach goal attainment more quickly than others, one or more sub-neighborhoods can often declare victories before goals are achieved in the whole -- sometimes quite large -- neighborhood.

NHSs of average size can usually achieve their neighborhood impact goals within about six years. Results in the earliest NHS programs support a projection that an average-sized NHS program's initial goals in a neighborhood generally are achieved, given average program difficulty and average resources, within this timeframe. At least $12 million in reinvestment has usually occurred. A healthy self-reliant state has been achieved through targeted public services and capital improvements, comprehensive NHS financial and rehabilitation assistance, and a range of community involvement activities designed to strengthen the NHS neighborhood's identity and pride.

Within this period, NHS has also worked to create a sustained leadership network to maintain the neighborhood's renewed pride and stability. From this point, the neighborhood's vitality can be sustained by resident leadership with limited residual services from the NHS, and the major thrust of the partnership's work can be focused on addressing the needs of additional neighbornoods.

Eighteen neighborhoods have now reached a substantially self-reliant state, and declared victories in their battles to become strong, healthy communities.

The eighteen neighborhoods on our Honor Roll are:

Patterson Place and Linwood in Baltimore, MD
Plaza-Midwood in Charlotte, NC
Glenwood in Chattanooga, TN
Near Northwest in Chicago, IL
Madisonville in Cincinnati, OH
Love Field in Dallas, TX
Blue Hills in Hartford, CT
Regina and Southside in Minneapolis, MN
Minnequa Heights in Pueblo, CO
Northside in Racine, WI
Benton Park, Soulard in St. Louis, MO
Merriam Park in St. Paul, MN
East Liberty Park in Salt Lake City, UT
Hill in Scranton, PA
Ferry Village in South Portland, ME
Hyde Park in Tampa, FL

6. THE NEIGHBORHOOD HOUSING SERVICES OF AMERICA SECONDARY MARKET

Neighborhood Housing Services of America, Inc. (NHSA) was established as a private nonprofit, state-chartered, tax-exempt corporation in 1974. It gives added private sector strength to the NHS programs and, through a unique secondary market, gives the NHS programs access to the private investor market as a resource for replenishing their loan funds.

Because NHS revolving loan funds are designed to meet the needs of low income people, repayment schedules must be extended over several years to meet the borrower's ability to pay. Thus, the funds revolve slowly. There is a need for an infusion of new capital to ensure that the revolving loan funds keep pace with each program's ability to upgrade its neighborhood. Just as savings and loan associations and banks need a secondary market to which they can sell loans to replenish their ability to make new loans, the NHS programs also need a secondary market for their revolving loan funds.

To provide a mechanism for the continued flow of revolving loan dollars into NHS neighborhoods, NHSA created a loan purchase pool to serve as an interim secondary market for the purchase of loans from local NHS programs. Annual contributions averaging $480,000 per year from the Neighborhood Reinvestment Corporation provided capital to set up and operate the loan purchase pool. The character of the loan purchase pool changed into a true secondary market when an institutional investor agreed to purchase securities backed by a pool of the NHS loans which NHSA had purchased.

Several insurance companies have now made "social investments" in the NHSA secondary market, purchasing the NHSA securities at a rate several percentage points below market. Purchasing (or committing to purchase) securities totaling $22.5 million are:

The Equitable Life Assurance Society of the United States	$3.0 million
The Prudential Insurance Company of America	$5.0
The Wausau Insurance Companies	$0.5
Aetna Life and Casualty	$4.0
Allstate Insurance Companies	$4.0
Mutual Benefit Life	$1.0
Metropolitan Life Insurance Company	$5.0

Experience to date in the purchase of loans for the secondary market has resulted in 89 NHS revolving loan funds receiving over $14 million to replenish their lendable funds. This early experience has also served to develop a workable, dependable mechanism for the NHS secondary market social investments which are needed to assist over 200 local partnerships in upgrading urban neighborhoods across the nation.

There has also been no need to use any of the guarantee funds which were set aside to cover delinquencies. This is due to two factors: the NHSs make every effort to offer NHSA loans which they believe will not require substitution; and where substitutions are needed, there has been full cooperation. The need for substitution has been minimal, however, averaging about five per quarter and totaling only 137 over the seven-year period of operation out of a total of over 1,500 loans totaling $14,171,857 through December 1984.

7. NATIONAL NHS WEEK

NHSs' service was recognized last year in Public Law 98-350, a Joint Resolution designating the week of October 7, 1984 as "National Neighborhood Housing Services Week." President Reagan praised the NHS partnership for exemplifying "the spirit of cooperation and voluntarism that is the hallmark of American life" in an Oval Office ceremony, and across the country, governors, mayors and city councils followed suit with local celebrations.

Coinciding with the President's proclamation, Mr. David O. Maxwell, Chairman and CEO of the Federal National Mortgage Association (FNMA), announced the signing of a Master Commitment Purchase Contract with NHSA to purchase up to $25 million in apartment rehabilitation loans. At the same press conference, Mr. John Creedon, President and CEO of the Metropolitan Life Insurance Company, announced a $5 million commitment to purchase notes from NHSA backed by NHS revolving fund loans. Mr. Creedon also announced a $200,000 interest-free loan to NHSA to assist with the commitment fee for the FNMA master commitment.

These national recognitions of NHS, along with over a hundred local celebrations, were of major importance in heightening the public image and name recognition of NHS, so important in its fundraising efforts. We are grateful to the Chairman, and member of this Committee, for their support of the Joint Resolution making it possible.

8. PRIVATE FUNDRAISING

Individual NHS operating budgets are funded primarily by private contributions, and the NHSA secondary market which is a liquidity resource for NHS revolving loan funds has been significantly leveraged with private funds. NHSA receives below-market rates on the securities it sells to insurance companies. In addition, corporate and foundation contributions and zero-interest loans supplement Neighborhood Reinvestment's grants for working capital, guarantee funds, overcollateralization and administrative expenses.

Neighborhood Reinvestment and NHSA have worked actively to stimulate this private support. Early results were most encouraging. The targeted local campaigns and the targeted secondary market leadership gifts were successfully developed and achieved in 1982 and 1983. By 1984, however, the financial industry base of the NHS programs had eroded through mergers and other difficulties to a point that by year-end 1984 all our efforts had been refocused around local fundraising assistance. We found, too, in approaching corporations, that even after requests by peers who had been enlisted to make approaches and after favorable staff reviews, approaches were not successful which in an earlier fundraising environment would have been. The overall flow of charitable funds was caught up in a double bind of decreases in available funds (because of lower corporate earnings which were the source of annual budgets of corporate foundations) and requests for funds at record-breaking levels. Of course, all this added up to a very difficult fundraising environment.

We had to change our fundraising priorities to recognize the major shift in the availability of funds for basic local operations and revolving loan funds. Even though the "national drive" as we envisioned it fell victim to this environment because of overriding local fundraising needs, local campaign needs and secondary market needs are being met as we succeed in protecting the NHS base of support and adding new support on a case-by-case basis. Further, and equally as important, we made secondary market breakthroughs.

If the secondary market breakthroughs are solidified and continued, they will allow us to continue to meet our goal of keeping pace with the needs of the NHSs to replenish their revolving loan funds on fewer and fewer contribution dollars. Even though this will allow NHSA to achieve a higher and higher leverage on Neighborhood Reinvestment's support to this work, it is important to be aware that the stability of NHSA's funding from Neighborhood Reinvestment has been an essential factor in negotiations with potential contributors. As an example, for 1984, major discussions resulted in approvals of $1.3 million in zero-interest working capital, $5 million in social investments with very liberal terms and a $25 million master commitment with the Federal National Mortgage Association (FNMA). Dollar participations at these levels require evidence of a stable organization. The Neighborhood Reinvestment Corporation's grants to NHSA have provided that stability.

9. FNMA SECONDARY MARKET ACCESS

In October 1984, a pilot $25 million Master Commitment Purchase Contract was signed between the FNMA and NHSA. NHSA provided a $250,000 commitment fee to be recovered as the commitment is utilized by Apartment Improvement Programs (AIP). This $25 million commitment by FNMA opens a previously closed door to AIP originators of loans for apartment rehabilitation. The agreement allows an apartment owner to secure financing with the knowledge that FNMA has committed to purchase the loan.

With AIPs operating in 24 cities, this resource will significantly improve their ability to preserve rental multi-family housing for the benefit of the current residents.

As with any new effort, the initial steps have been slow. Nevertheless, FNMA has approved two applications for $1,525,000. The 439 units to be rehabbed are in Newark, NJ. This is one of the largest private financings of rental housing in Newark in many years.

10. MUTUAL HOUSING ASSOCIATION DEMONSTRATION

A little more than four years ago we undertook, with Congressional encouragement, a demonstration of Mutual Housing Associations adapted from the Western European model. The demonstration sought to test:

1. whether a Mutual Housing Association, as a result of active involvement of occupants, can engender pride of ownership in the association

property and thus foster well-maintained and operated housing units. The Baltimore Mutual Housing Association is producing encouraging results in this regard.

2. whether a Mutual Housing Association, as an entity governed by a board of directors representative of occupants, waiting occupants, adjacent neighbors, local businesses and the local government, can produce (either through rehabilitation or new construction) and operate efficiently, housing in the public interest at a minimum cost. The Baltimore Mutual Housing Association is producing encouraging results in this regard.

By the end of January 1985, 18 units in the Mutual Housing Association demonstration in Baltimore had been occupied. Fifteen additional units will be occupied by the end of March, bringing the total to 33. This progress was possible as a result of this Committee's support for a reallocation of funds in our FY 1984 budget, as well as an FY 1984 supplemental appropriation. This Congressional support, along with local and state governments and private sector support, also made possible the road construction and site development phase beginning next month, after which construction of 16 additional units will begin in early summer.

I would like, at this time, to submit a progress report on this Congressionally encouraged demonstration and request its inclusion in the record. We will also be submitting the report to the Subcommittee on Housing and Urban Affairs of the Committee on Housing, Banking and Urban Affairs.

I am pleased to answer your questions on the Corporation's mission, operations and budget request.

OPENING REMARKS OF WILLIAM A. WHITESIDE

Mr. WHITESIDE. Thank you, Mr. Chairman.

I am going to be extremely brief to give you an opportunity to pose some questions in what I know is a very busy morning.

Neighborhood Housing Services programs now serve over 2 million Americans in over 200 neighborhoods. We have discovered over the years that our technical services to these operating NHS's have continued value not only to maintaining the NHS's continued survival, but their high productivity in a very challenging environment.

We have found ourselves squeezed over the last several years by the impact of cost increases on our relatively level budgets since 1981, and the current request will continue that squeeze.

The output that we presented to you for 1986 is our best judgment of the best allocation of these limited resources for the continuation of our work, which we believe continues to be very productive. Over $3 billion in reinvestment in the neighborhoods has been tracked to date, and we have had remarkable success in a rather surprising area, which I have highlighted in my testimony; namely, the rural NHS's are succeeding very well.

We didn't have a lot of hope for this success because of limited fund-raising opportunities in rural areas—not only limited private resources, but limited public resources. With some outside support, however, such as HUD small cities grants or State grants, the rural NHS's are proving to be extremely effective.

Our Mutual Housing Association demonstration is moving along well, again, with limited resources. Thanks to this committee, we were able to complete an additional 25 homes this year. With that, I will close my opening remarks and take your questions, Mr. Chairman.

EFFECTS OF BUDGET CONSTRAINTS ON AGENCY GROWTH

Senator GARN. Thank you very much.

As you and I have worked together over a long number of years before I ever assumed this position, we talked a great deal when we established the Neighborhood Reinvestment Corporation. We wanted to not have it grow too rapidly and that was the major reason I insisted it not be part of HUD. We didn't want it to get swallowed up with HUD and many of the problems that they have had. We have been able to follow through on that, although there is something that makes me feel badly now when we look at your total budget. We in the Appropriations Committee often round off to the nearest $50 million. We do have a large budget deficit, but we are apparently not able to control the big ones. Our Budget Committee and others are not willing to look at the giant budgets, the billions and billions of dollars because, I guess, they have a much greater constituency. So although I didn't want—and you agreed and everybody who was involved in the establishment—we didn't want you to grow too rapidly. We didn't want you terminated either or reduced. So although 5.4 percent, whatever it is, may not seem too large to a small budget of $14 million, it can have a considerable impact.

Can you identify or illustrate for the subcommittee how these budget constraints are being felt out in the field? How they will affect your programs?

Mr. WHITESIDE. In this morning's Wall Street Journal, there was a story on the way the Newark, NJ, city government has had to reduce its police department. I believe for minor things, like having your car stolen, you no longer get a police response. Our technical services won't reach that dire point at this budget level, but it is the same kind of situation. An NHS, when it had a problem, had been able to count on us for a response. We are having to be more and more selective and prioritize more and more, with regard to the help we are able to provide.

As you know, these are tiny organizations, many with only three-person staffs, and our backup has made all the difference in their ability to be productive.

Senator GARN. Your fiscal year 1985 budget, aside from the 1984 supplemental for the Baltimore mutual housing project, represented a steady level of direct appropriation from that provided for the two preceeding years. Your fiscal year 1986 request of $14.7 million, however, is a reduction of $843,000. I assume this reduction was not contemplated in your original request to OMB; is that correct?

Mr. WHITESIDE. No, it was not, although we did submit several budget levels.

Senator GARN. What was the level of direct appropriations that you felt was your necessary level to maintain your services?

Mr. WHITESIDE. We requested an enhanced level of $22,800,000 and a service maintenance level of about $16,300,000.

Senator GARN. Would you provide for the record a detailed breakdown of that request for the subcommittee?

Mr. WHITESIDE. Yes, we will, Mr. Chairman.

[The information follows:]

FISCAL YEAR 1986 BUDGET REQUEST TO OMB

The attached chart details Neighborhood Reinvestment's 1986 funding request. It lists the fiscal year 1986 goals at each of four funding levels required by OMB—reduced, current, intermediate, and enhanced. The Neighborhood Reinvestment fiscal year 1986 funding request took as a starting point the approval of the fiscal year 1985 budget at the $15,512,000 level.

The fiscal year 1986 budget request for Neighborhood Reinvestment ranged from $14,654,000 at the reduced level (which assuming 5-percent inflation, represented a 9-percent reduction in real dollar terms) to $22,800,000 at the enhanced level. At the enhanced level, overall program development and programmatic supplements would increase from 79 to 122 starts. The enhanced level anticipated a major increase in demand for NHS programs as the Advertising Council's campaign and National NHS Week increase public awareness of the NHS programs. Given the proven ability of NHS programs to leverage private investment with small public expenditures, the full impact of the NHS programs would dwarf public outlays at the highest of these four levels.

Neighborhood Reinvestment Corporation
FY 1986 Program Goals and Funding Request
Summary

	1985	1986			
	Goals	Reduced	Current	Intermediate	Enhanced
Neighborhood Housing Services					
NHS Starts & Expansions	17	14	16	22	29
Reorganizations	7	6	6	6	6
NHS Developments Continued	18	21	21	21	21
Programmatic Supplements					
PPS	4	3	4	7	10
IFP	2	1	2	2	2
Owner Built	4	2	3	4	6
Commercial	2	1	2	2	2
Energy					
Major	0	0	0	0	0
Incentive Grant	7	2	7	10	12
Urban Lender	1	0	1	1	2
Training & Technical Services					
Programs-Technical Services	213	230	230	230	230
Program Reviews	125	125	125	175	200
Neighborhood Goals Achieved(cum)	30	32	32	32	32
Secondary Mrkt Capitalization	$550**	$500	$500	$1M	$1.25M
Local NHS staff/partnership (# of participants)	3,500	2,500	3,500	3,500	4,000
Number major trng conferences	4	4	6	6	7
Training NHS staff members (# of participants)	220	160	220	220	260
Intern Awards	80	60	80	80	100
AIP					
AIP Starts & Expansions	4	2	3	4	4
Programs-Technical Services	27	30	30	30	30
Research & Pilot Replication					
NPP					
Major	25	15	25	30	35
Incentive Grants	12	5	10	15	18
Mutual Housing	1	0	1	2	2
Neighborhood Impact Case Studies	4	4	4	4	4
Congressional Appropriation ($000s)	$15,512	$14,654	$16,288	$19,500	$22,800
Agencies ($000s)	800	400	400	400	400
Project Development ($000s)	600	500	900	1,100	1,300
Interest ($000s)	1,170	1,120	1,210	1,385	1,560
Carry Forward ($000s)	500	200	200	200	200
Deobligations* ($000s)	0	0	0	0	0
Total	$18,582	$16,874	$18,998	$22,585	$26,260

**$300,000 advanced in last quarter-FY 1984.

IMPACT OF PROPOSED HOUSING REDUCTIONS

Senator GARN. Neighborhood Housing Service agencies draw upon a wide array of federally funded housing community development funds to accomplish their goals. The administration's fiscal year 1986 budget proposes termination or significant reduction in a number of these programs, such as UDAG, CDBG, and assisted and public housing. What impact would these reductions have on your budget and your activities?

Mr. WHITESIDE. Well, if all of those reductions become law, it would have a serious impact in the neighborhoods. The public resources from community development block grant funds are a significant part of the support of the NHS's. About 25 percent of their operating budgets come from public sources, primarily CDBG. Most of their project funds also come from this source. For instance, a city government will write down the cost of a particular rehab so a home can be sold to someone at the neighborhood income level. They will write down land so that owner-builders can build their own homes on it. Reducing the CDBG resource would significantly reduce the level of activity that NHS's would be able to undertake.

OTHER FUNDING SOURCES

Senator GARN. In addition to your direct appropriation, your agency has received funding through the Federal Home Loan Bank Board, an agency that will also be heard later this morning. They are having budget problems, particularly in their examination process, and also the Federal Reserve Board. Both of these agencies are proposing to cut their contribution to NHS in half for fiscal year 1986. How do you determine the level of contributions from these agencies?

Mr. WHITESIDE. As you know, historically all of our support originally came from the Federal Home Loan Banks. This reached a high in 1981 of $1.4 million. In the following year, the Federal Home Loan Banks, which were beginning to feel the pressure of the difficulties experienced by the savings and loan industry, suggested that the other agencies on our board share in that annual support. They cut back their support to $400,000, and we sought an additional $1.2 million from the other agencies. We were successful in getting support from the Federal Reserve, the FDIC and the Comptroller of the Currency, totalling another $800,000.

By the following year, the pressure of bank failures on the FDIC and Comptroller's office was mounting, and they determined to drop their support in the following year.

This year, so that we don't have a sudden reduction in income, the Federal Reserve and the Federal Home Loan Bank Board have told us that they want to phase down their support in fiscal year 1986 and phase it out altogether in fiscal year 1987.

Given the budget pressure these agencies are under, it seems to me that it is perhaps an unreasonable demand that they share their limited resources with another entity.

MUTUAL HOUSING ASSOCIATION DEMONSTRATION

Senator GARN. Last year Congress directed that $500,000 be utilized for the Baltimore mutual housing project and further supplemented this amendment with a direct appropriation of another $500,000. What is the status of the Baltimore project?

Mr. WHITESIDE. We have provided a report to the committee in detail on the progress of that project, with a total of $1 million made available through that supplemental appropriation and the committee's urging that we spend another $500,000 from our existing funds on the Mutual Housing Association National Demonstration.

[The report follows:]

A PROGRESS REPORT TO THE U.S. CONGRESS ON THE MUTUAL HOUSING ASSOCIATION NATIONAL DEMONSTRATION

Pursuant to Section 316 of the Housing and Community Development Act of 1980 (Public Law 96-399)

EXECUTIVE SUMMARY

This demonstration of the Western European Mutual Housing Association concept, adapted to American customs and institutions and to neighborhood scale, is taking place against a backdrop of a structural shift in the affordability of housing in the United States. Families priced out of homeownership are competing for a shrinking supply of rental housing. While measures of the affordability gap in relationship to homeownership are well known, it is well to note that from 1970 to 1983, the share of family income devoted to housing by renters in all income groups increased from 20% to 29%, an increase of 45%.

The demonstration is of particular relevance to the Neighborhood Reinvestment Corporation which works with over 200 Neighborhood Housing Services (NHS) neighborhoods in 40 states and the District of Columbia. NHSs are seeking affordable rental housing resources to ensure that revitalization of neighborhoods does not adversely affect lower income neighborhood tenants.

Mutual Housing Associations are designed to have the following characteristics:

- They are publicly accountable nonprofit corporations.
- The Association rehabilitates and/or produces housing which it owns and operates in the public interest.
- Resident members of the Association participate in the financing by paying a refundable capital fee; participate in its management, and are encouraged in a psychological "pride of ownership."
- The Association's governing body is made up of a majority of resident members and waiting members, as well as representatives of the surrounding neighborhood, local government and housing professionals, including representatives of businesses and financial institutions.

The demonstration is seeking to determine whether the Associations can:

- Produce congruence of interest among subsidizer/developer/owner/operator/tenant/community.
- Rehabilitate and/or produce housing and operate it efficiently and at minimum long-term public subsidy cost.
- Assure long-term good maintenance through psychological "pride of ownership" in the properties of the Association.

Thus far, in the initial Baltimore, Maryland demonstration site, the Baltimore Mutual Housing Association has been organized, and participants display the desired participative characteristics with great enthusiasm. The first 33 units of newly-constructed townhouses have been completed, and 16 more will be started this summer, on a site that will accommodate 110 units.

At least one further demonstration is planned, this one emphasizing rehabilitation of existing units. All results to date are positive, but longer term monitoring is planned to further test the hypotheses relating to management and maintenance.

PREFACE

In August 1980, at the request of former Congressman Jonathan Bingham, the Neighborhood Reinvestment Corporation undertook a demonstration of the Western European Mutual Housing Association concept as a Neighborhood Preservation Project. This demonstration was further encouraged by language in the 1980 Housing and Community Development Act and that directed the Neighborhood Reinvestment Corporation to make a report on progress with the demonstration to Congress no later than September 30, 1981.

The report was submitted on September 30, 1981 and this report documents further progress on the demonstration.

INTRODUCTION

For several years, Neighborhood Reinvestment, in addition to its historical commitment to expanding homeownership opportunities for lower income neighborhood residents, has been concerned about housing opportunities for non-owner occupants in Neighborhood Housing Services (NHS) neighborhoods and the potential of their displacement as neighborhoods are improved and the level of owner-occupancy increases. This has been reinforced by NHS leaders throughout the country who have voiced their concern about the shrinking affordable housing options for families and individuals for whom the American dream of homeownership is no longer achievable.

There has been a structural shift in the affordability of shelter for Americans in the lower half to two-thirds of the income spectrum. In addition to the inflation in the costs of existing housing and land and escalating construction costs, which began in the mid-seventies (see Exhibit I), the deregulation of savings account interest rates has had the effect of subjecting housing to the full force of market conditions in interest rates (see Exhibit II).

In many rental housing markets, the lack of new construction, the continued deterioration of existing stock and the selective elimination of rental units through condominium conversion create an ever tightening rental market with steadily increasing rents (see Exhibit III). This is occurring against a backdrop of increased demand for rentals by families priced out of the homeownership market (see Exhibit IV) and the steadily increasing numbers of new (and smaller) family units due to the entrance in the housing market of the baby boom cohorts, the rising divorce rate, single parenting and the delay in marriages.

While present day fiscal considerations militate against large-scale federal intervention, the current plight of lower income families and individuals with regard to their shelter needs is certainly a proper concern of public policy. In addition, past federally assisted housing efforts have been criticized for being unduly expensive and have frequently produced conflicting interests among the federal government (as long-term subsidizer), developers (with an interest in short-term profits), owners (with an interest in tax shelter and property appreciation), nonprofit sponsors (long-term operators frequently lacking property management skills), tenants (needing affordability, decent living conditions and security of tenure), and the surrounding community (concerned that housing for lower income residents should not pull down community standards). The usefulness of experimentation, such as this demonstration, with different approaches to meeting these housing needs, is clear.

The demonstration is testing the following hypotheses:

- That a Mutual Housing Association -- as an entity governed by a Board of Trustees representative of resident members and waiting members, the adjacent neighborhood, local government, and the local business community -- will produce greater congruence of interest among concerned groups and entities.
- That a Mutual Housing Association, as a publicly accountable, private nonprofit corporation, can rehabilitate existing housing, produce new housing and operate it efficiently, and at minimum long-term costs in public subsidies.
- That a Mutual Housing Association, as a result of active involvement of resident members and other inducements, can engender a psychological pride of ownership in the properties of the Association, which will be a factor in ensuring long-term good maintenance.
- That Mutual Housing Associations can, through an organized process, be developed and replicated in communities throughout the United States, and be held accountable to public policy.

THE DEMONSTRATION

For some time, representatives of the Neighborhood Reinvestment Corporation and Neighborhood Housing Services of America (NHSA) have observed and studied the progress of Mutual Housing Associations in Western Europe. Ten years ago, we borrowed certain educational concepts from the West German Mutual Housing Associations and the umbrella Head Federation of Non-Profit Housing Enterprises, and made them available to the NHS network throughout this country. Five years ago, we returned to learn if the Mutual Housing Association, itself, could be adapted to American institutions.

With funding provided by the German Marshall Fund, a careful review was made of West German Mutual Housing Associations. Because Neighborhood Reinvestment's primary interest was in conjunction with the needs of NHS neighborhoods, the Mutual Housing Associations that were selected for review were those operated on a small scale[1] and that displayed a high degree of resident member participation.

The Corporation determined that demonstrations in several regional settings, encompassing both rehabilitation of existing structures and new construction would be desirable. Reliable evaluations of operating experience, costs, and quality of maintenance will require an extended period of monitoring.

The first demonstration was undertaken in Baltimore, Maryland, in cooperation with the NHS of Baltimore and the City of Baltimore. The availability in the Govans NHS neighborhood of a vacant ten-acre site which in its undeveloped state had a blighting effect on the neighborhood, as well as the lack of availability of suitable sites for rehabilitation, resulted in a decision to pursue new construction in the first demonstration.

The Corporation undertook this demonstration without expectation of further funding, undertaking the organizational development expenses and early "soft" costs of the physical development from its regular appropriation, and seeking foundation grants for the capital needed to reduce rents to levels affordable to lower income resident members.

The major difficulty encountered in the demonstration has been the radical change in the climate of charitable giving during the 1980s. With substantial reductions in the availability of federal funds for community development purposes, philanthropic institutions and private corporations have been subject to a tremendously increased volume of requests. Under this pressure, they have given first priority to the communities with which they are identified. This has had the effect of drying up resources which in earlier times could have been available for national demonstrations of this type.

ORGANIZATIONAL DEVELOPMENT PROCESS

We assembled a "partnership" group, representing the Baltimore NHS partnership of neighborhood residents, lenders and representatives of local government, and added to that prospective resident members of the proposed Mutual Housing Association.

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[1] Scale is a relative matter, the "small" nonprofit West German Mutual Housing Associations operated 3,000 to 5,000 units owned by the Association. A large Association might operate 50,000 or more units.

In much the same way that we develop a new NHS, we scheduled a series of workshops for this group, with periods of committee work interspersed between workshops during the nine-month developmental period. At the first workshop the concept was introduced, and at the final workshop a Board of Trustees was elected to direct the affairs of the newly incorporated Baltimore Mutual Housing Association.

In order to give reality to the elements of the model dealing with the production of dwelling units, we coupled the organizational development with the actual acquisition of property, design of units, etc. Neighborhood Housing Services of America held legal title to the property until the Mutual Housing Association was incorporated, and then transferred ownership to the Association.

THE MUTUAL HOUSING ASSOCIATION ORGANIZATIONAL MODEL

Based upon our appraisal of the key elements of Western European experience which would be replicable in the U.S., our experience replicating the NHS partnership model in over 100 communities, and our experience with the Apartment Improvement Program in several communities, we proposed a model organizational form for an American Mutual Housing Association to serve populations typical of NHS neighborhoods. This model was shaped and modified by the participants in the Baltimore Mutual Housing Association developmental process. The following are key elements of the resulting model:

- A state-chartered nonprofit 501(c)(3) organization governed by a Board of Trustees made up of resident and waiting members and partnership members drawn in the main from the local NHS partnership.
- Public accountability established and maintained through the terms of the Associations' state charters and bylaws, the terms and conditions of Neighborhood Reinvestment Corporation grants and the personal commitments of the community leaders, city government representatives, and business and technical experts in the areas of real estate development and property management participating as a community service.
- A professional staff, responsible to the Board of Trustees for carrying out the Board's policies in the Association's organizational development, and in developing, managing and maintaining dwelling units for occupancy by Association resident members and waiting members.
- Permanent ownership of units, and utilization of all available resources for continuing production of additional housing units, after providing for maintenance and other operating costs.

Responsibilities and Benefits of Resident Members

Mutual Housing Association resident members have the following responsibilities:

- Payment of a one-time membership fee. This fee earns nominal interest at a rate determined by the Association's Board of Trustees, and is refundable when the member gives up resident member status.
- Payment of a monthly fee equivalent to rent, which includes an element that is applied to amortize the capital advance made by the Association in producing that complex of units.
- Participation in the affairs of the Association through service on or election of others to serve on the Board of Trustees, Complex Councils and other Association committees.

Mutual Housing Association resident members receive the following benefits:

- Good quality housing.
- Affordable monthly payments.
- High standards of maintenance.
- Security of tenure.
- A voice in the affairs of the Association and in the Complex Council responsible for many management and maintenance decisions relating to the complex of units in which the resident member resides.
- Expedited nomination for membership and occupancy for a resident member's grown child when the member's unit is relinquished.

The benefits to the resident members are designed to make occupancy of the Association's units "a step up from rental," offering many of the psychological benefits of homeownership, and incentives to participate in homeowner standards of maintenance.

Operations of a Mutual Housing Association

A full-time staff is retained by the Association. The staff carries out the policies of the Board of Trustees, and provides professional management of the Association's affairs.

The staff must be competent to act as the developer of new and rehabilitated units, and to act as property manager of occupied units.

Financing of Mutual Housing Association Operations

The costs of operating the Mutual Housing Association and managing its properties is designed to be recovered through membership fees. Until the scale of operations grows to permit full recovery from this source, the difference is made up through private contributions and grants by local government and the Neighborhood Reinvestment Corporation.

The costs of developing units are capitalized and recovered from capital grants and the proceeds of mortgage financing.

Financing of Mutual Housing Association Developed Units

A financing technique was designed for Mutual Housing Associations which will enable housing units to be produced and operated for lower income families, under the economic conditions of the 1980's.

While the structural shift in housing affordability that accompanied savings rate deregulation has removed any incentive for a private developer to rehabilitate existing or build new housing for the lower half or two-thirds of the income spectrum, the private nonprofit Mutual Housing Association is not constrained by all of these factors. It has several advantages: 1) although it must cover its costs, it is not required to earn a profit; 2) as an entity operating in the public interest, it has access to any available public and private programs of below market-rate construction loans and long-term mortgages, land writedowns, property tax exemptions, etc.; and 3) as a 501(c)(3) organization, it may also receive tax-exempt private contributions and public grants.

Beyond these built-in advantages of the organizational form, we are experimenting with the use of front-end capital grants as the subsidy form which appears to offer the greatest flexibility and economy. This involves capitalization of the Mutual Housing Association with a public or private grant which remains with the Association for its continual use in producing lower income housing. In developing a complex of units the Association "advances" capital to the complex, which is returned to the Association by way of a long-term amortization of the capital advance. The amortization payments become a part of the base rent of each unit along with amortization of any mortgage financing, operating costs, taxes, etc. The Association is then able to utilize this income stream, or to borrow against it, for additional production of units.

This financing concept has the advantage to the subsidizing entity of certainty, and eliminates undefined future obligations. It should be noted that since the Mutual Housing Association concept relies heavily on the "pride of ownership" factor related to ownership and control of units by the Association, this financing concept does not involve the shifting of depreciation allowances to tax shelters through syndication. Compared to other concepts involving nonprofit organizations operating lower income housing which has been syndicated, this has the advantage to the U. S. Government of not reducing tax revenues.

The Role of the Neighborhood Reinvestment Corporation

The role of Neighborhood Reinvestment with respect to Mutual Housing Associations is:

1. To assist in the organizational development of the Association,
2. To make grants to the Association, subject to terms and conditions that will ensure the public accountability of the Association,
3. To provide technical assistance to the Association, and
4. To monitor the performance of the Association, review its annual audit report and assure that the Association is carrying out the terms and conditions of Neighborhood Reinvestment's grants.

COMPARISON OF A MUTUAL HOUSING ASSOCIATION WITH A COOPERATIVE

Key distinctions between this concept of the Mutual Housing Association and a cooperative are:

	Mutual Housing Assn.	Cooperative
Ownership	The structures are owned by the Mutual Housing Association. Residents are members of the Association and serve on its Board of Trustees.	Residents are collectively the owners.
Management	Directed by the Mutual Housing Association for the benefit of resident and waiting members and the community. Managed by a professional staff, governed by a board with broad housing experience.	Directed by the residents for their benefit. Except for very large buildings and complexes, often managed with limited professional resources.
Economics	Managed by the Mutual Housing Association to provide affordable housing for resident members and to produce additional units for waiting members. Resident members do not participate in equity appreciation. The increasing equity belongs to the Association and can be borrowed against for improvements or future production.	Managed at the discretion of the resident/owners for their sole benefit. Upon sale, resident/owners receive some (limited dividend) or all equity appreciation.

	Mutual Housing Assn.	Cooperative
Technical Assistance	The Neighborhood Reinvestment Corporation provides developmental assistance, training for staff, board and committee members, and other technical services requested by the Association.	Whatever assistance may be commercially available, at market rates.

Additionally, the long-term goals of Mutual Housing Associations and cooperatives are dramatically different.

Mutual Housing Associations, acting in the public interest are charged with the responsibility of continuing to produce additional units of housing affordable for lower income families. Cooperatives, generally, are organized for the mutual benefit of the cooperating individuals, without a long-term public purpose.

RESULTS

PROGRESS IN THE BALTIMORE DEMONSTRATION

In late 1980 work began on creating the Baltimore Mutual Housing Association. The organizational development process described in the preceding section refined the concepts which had been abstracted from Western European experience, to fit American customs and institutions.

In order to involve potential occupants in the organizational development process, an outreach effort was undertaken while the Mutual Housing Association was still quite abstract. The resulting recruitment brought forth a remarkable group of families and individuals who "bought into" a dream of affordable housing which in the words of one of their number, was "a step up from renting." They worked for many months on the committees which designed and implemented both the Mutual Housing Association organization and its first housing.

A strong Association was created, and work began on the development of townhouse units on a ten-acre parcel of land in the Govans neighborhood of Baltimore.

THE BALTIMORE MUTUAL HOUSING ASSOCIATION ORGANIZATION

Membership -- There are 114 corporate members of the Baltimore Mutual Housing Association. They include resident members (those currently occupying units operated by the Association), waiting members (those who are awaiting completion of units), community representatives, representatives of local government, and individuals who participate as a public service and serve as technical resources, including lenders, insurance executives, lawyers, housing management professionals and other business people.

Mutual Housing Association membership is not limited in number, but the bylaws provide that the sum of resident members and waiting members must constitute a majority of the membership.

The Association's membership meets annually, acts on policy questions reserved to it under the Association's bylaws, and elects a Board of Trustees.

Board of Trustees -- The Board of Trustees is representative of the membership, and the resident members and waiting members constitute a majority of the membership of the Board. The twenty-five member Board has been functioning since June 1982, and is made up of the following categories of members:

9 resident members (until there are enough resident members, some of these seats are held by waiting members)
4 waiting members
4 neighborhood representatives
2 city-wide community members with housing interests
4 business and financial institution representatives
2 city government representatives

The Board, operating within a charter and bylaws adopted by the membership, is responsible for carrying out the Association's mission and achieving the goals adopted by the membership. The Board sets operating policies, exercises fiduciary oversight, and selects, evaluates and terminates the staff director.

Complex Councils -- The Association has adopted the policy of encouraging optimum self-governance of its housing complexes, and plans to establish a council for each complex of units, composed of complex residents and representatives of the neighborhood of which it is a part.

The Complex Council will have responsibility for determining how resident members will share in maintenance responsibilities, determining the way common space will be used, establishing policies on pets, mediating disputes, monitoring for compliance with membership and occupancy agreements, and coordinating resident events and activities.

Until there are a sufficient number of resident members to establish the first Complex Council, the Operations Committee is performing this function.

Committees of the Board of Trustees

Finance Committee -- This committee is responsible for fiduciary oversight of the Association, as well as securing the funds necessary for operating the Association and financing its properties.

Operations Committee -- This committee is responsible for monitoring the physical operation of the Association's units. To date it has:

- Developed maintenance education workshops for residents,
- Developed a system for 24-hour emergency property management responses,
- Worked with the Physical Development Committee to develop an appropriate security system,
- Continued the delineation of resident and Association maintenance responsibilities, and
- Acted on behalf of Complex Council until there are enough residents to activate the Council.

Membership Committee -- This committee is responsible for recruiting, orienting and counselling prospective resident members. To date it has:

- Responded to over 2,000 membership inquiries,
- Reviewed over 100 applications for resident membership,
- Reviewed and recommended revised policy to reduce resident applicant credit fee charges, and
- Monitored compliance with Neighborhood Reinvestment's income guidelines, and assisted with policy development to meet this goal.

Physical Development Committee -- This committee provides input to the Board and the Association's architect on design of Association units. To date it has:

- Participated in the design of the townhouse units for the first site, Alameda Place, including necessary cost/quality tradeoffs, and
- Reviewed and recommended changes in plans for existing and future units, improving the functional and visual quality without material increases in costs.

STAFFING OF THE BALTIMORE MUTUAL HOUSING ASSOCIATION

Staffing of the Baltimore Mutual Housing Association is as follows:

Executive Vice President (Chief Executive Officer - strong construction skills)
Director of Property Management and Membership
Administrative Assistant/Office Manager
Membership Assistant
Clerical Assistant

Consulting services are utilized in construction supervision, financial packaging, accounting and legal.

PHYSICAL DEVELOPMENT OF BALTIMORE MUTUAL HOUSING ASSOCIATION UNITS

The initial site for the Mutual Housing Association of Baltimore is within the Govans neighborhood. When acquisition of existing units for rehabilitation did not prove feasible, interest turned to a large vacant parcel of land within the Govans neighborhood that had been a source of blight, because of trash and abandoned appliances, as well as being a crime concern. Acquiring this land for construction of new units presented an opportunity both for the Mutual Housing Association demonstration and to assist in stabilizing the neighborhood.

The schedule of construction progress to date is:

Phase	Activity	Status
I	8 units	complete, occupied January 1984
II	25 units	ten units occupied, remaining units to be occupied next month.
IIIA	interior streets	construction starts in March, to complete June 1985
IIIB	16 units	construction starts Summer 1985
IV	61 units	dependent upon securing financing
Total	110 units	

FINANCIAL STATUS OF THE BALTIMORE MUTUAL HOUSING ASSOCIATION

Raising the capital grants necessary for the construction of the units has proved to be an extremely challenging task during the past four years. The fundraising climate of the country has been influenced by the recession of the early 80s, and by reduced federal resources. Foundations and corporations have been placed under tremendous pressures to meet the increased demands, and private fundraising has not met original expectations. On the other hand, support by local and state governments has surpassed our expectations, and Neighborhood Reinvestment, as a result of Congressional interest, has been able to provide $1,000,000 in capital grants. The chart at Exhibit V shows the sources of funds which have been raised to meet the capital needs of the Association. In summary, the following financial commitments have been obtained:

-- Construction and permanent financing for 33 near-completed townhouse units at a cost of $1,777,000. The State of Maryland and a private bank consortium provided construction financing. Permanent financing included capital grants from Baltimore corporations and foundations, the State of Maryland and Neighborhood Reinvestment, and loans from

Baltimore banks, the members and the Urban Development Action Grant program.

- Firm financing commitments for 16 additional units, land refinancing and completion of all remaining street and utility work at a cost of $1,732,800.
- Sale by the State of Maryland of a $5.1 million short-term bond note at 7% interest to serve as construction financing for the balance of the 110 units, including the site work and 16 units above.

The Association is continuing to work to identify sources, particularly capital grant sources, to assist in financing the remaining 61 units.

Neighborhood Reinvestment Technical Services and Monitoring

Throughout the period of operation of the Baltimore Mutual Housing Association, members of Neighborhood Reinvestment's staff have made themselves available to consult with the Board and staff of the Association, and to provide introductions to other resources. For instance, the services of the Neighborhood Housing Services of America fundraising consulting staff were made available in the design and execution of the successful fundraising campaign chaired by Mr. Jack Moseley, Chairman and Chief Executive Officer of USF&G, a national insurance company with home offices in Baltimore.

The Corporation's first formal program review was conducted in July 1984. While the review team (made up of Neighborhood Reinvestment's Deputy Executive Director, Internal Auditor, and a regional Program Review Manager) had many suggestions for strengthening the operations of the Association, they found no material weaknesses in the program. A summary of the Program Review Report is shown as Exhibit VI.

INTERIM CONCLUSIONS

At this point in the demonstration, we are able to conclude that a significant number of the elements of the hypotheses stated on page 5 of this progress report have been demonstrated. A significant number also remain to be tested. Comparing experience thus far with the hypotheses:

> **Hypothesis:** That a Mutual Housing Association -- as an entity governed by a board of trustees representative of resident members and waiting members, the adjacent neighborhood, local government, and the local business community -- will produce greater congruence of interest among concerned groups and entities.

The Baltimore Mutual Housing Association represents in its charter and bylaws, as well as in the regular participation of the members of its Board of

Trustees, an entity governed as described in the hypothesis. No weaknesses in design or implementation of this structure were noted during the program review.

Congruence of interest among the concerned groups and entities appears to be present at this time. The groups and entities are:

Subsidizers -- The Neighborhood Reinvestment Corporation representing the interest of the federal government as grantor of appropriated funds;
The City of Baltimore, representing its own interest, as well as that of the federal government as grantor of CDBG and UDAG funds;
The Maryland State Community Development Administration, representing the interest of the State of Maryland; and
Private contributors.

Developer -- The Baltimore Mutual Housing Association

Owner -- The Baltimore Mutual Housing Association

Nonprofit sponsor -- The Baltimore Mutual Housing Association

Tenants -- The resident members of the Baltimore Mutual Housing Association

The surrounding community -- NHS representatives/residents of adjacent neighborhoods

To date, only one conflict has been noted: during zoning hearings, residents of single-family homes adjacent to the Mutual Housing Association building site opposed the Mutual Housing Association development. The Mayor appointed a task force representing the opposing group and other broad community representatives to monitor the development. The task force has pronounced itself satisfied that the Mutual Housing Association development offers no threat to the community, and individual homeowners have stated their satisfaction with the development to date. However, a few adjacent residents remain skeptical about the Mutual Housing Association and will be watching its long-term impact on the neighborhood.

Neighborhood representatives on the Board of Trustees of the Association, on the other hand, have voiced no conflicts with the Association, expressing enthusiasm for the positive impact on the neighborhood of the development to date.

Future experience will be required to learn whether other conflicts may surface among the concerned groups and entities; however, none of the built-in zero-sum characteristics of subsidizer-developer-owner-operator-tenant relationships experienced by past federally-subsidized housing have surfaced, and the structure seems to make them unlikely.

Hypothesis: That a Mutual Housing Association, as a publicly accountable, private nonprofit corporation, can rehabilitate existing housing, produce new housing and operate it efficiently, and at minimum long-term costs in public subsidies.

The Baltimore Mutual Housing Association exists as a publicly accountable, private, nonprofit corporation. Its public accountability is spelled out in its State of Maryland corporation charter, its IRS 501(c)(3) tax-exempt ruling, and the terms and conditions of its grants from the Neighborhood Reinvestment Corporation, the City of Baltimore, and the State of Maryland. Its nonprofit status is attested to by its corporate charter and its tax-exempt ruling.

This demonstration does not relate to the rehabilitation of existing housing, but the Baltimore Mutual Housing Association has demonstrated that it is able to produce new housing.

Further monitoring will be necesssary to reach conclusions with regard to efficiency of operation and minimization of long-term public subsidy costs.

Hypothesis: That a Mutual Housing Association, as a result of active involvement of resident members and other inducements, can engender a psychological pride of ownership in the properties of the Association, which will be a factor in ensuring long-term good maintenance.

The Baltimore Mutual Housing Association actively involves resident members, as evidenced both by the Association's bylaws and by the ongoing participation of the resident members. Inducements to a psychological "pride of ownership" have included involvement of prospective resident members in the planning and design of both the Association and its physical units. They have included resident member participation in screening potential residents, establishing occupancy rules, establishing maintenance standards, and developing occupancy agreements and bylaws which promote long-term occupancy, and the ability to pass a unit on to a grown child when occupancy is relinquished by a resident member.

The degree to which such a psychological pride of ownership has been established can be determined only to a degree from resident member attitudes. The longer-term proof will be in the behavior characteristics of the resident members with respect to the properties. On the basis of observed attitudes, however, there is strong evidence of the existence of this psychological pride of ownership.

Hypothesis: That Mutual Housing Associations can, through an organized process, be developed and replicated in communities throughout the United States, and be held accountable to public policy.

While the Neighborhood Reinvestment Corporation has had 14 years of experience in replicating Neighborhood Housing Services programs in communities throughout the United States, a second demonstration of a Mutual Housing Association has yet to be undertaken. Longer experience will also be necessary to determine whether any problems develop in holding Mutual Housing Associations accountable to public policy.

FURTHER TESTING NEEDED

For a valid demonstration to be concluded of the Mutual Housing Association concept set forth in the foregoing progress report, the following should be undertaken:

1. At least one additional demonstration should be undertaken, emphasizing the rehabilitation of existing units. This will provide data on the success of the model in a rehabilitation setting, and provide evidence of the replicability of the concept.

2. Careful monitoring of this and future demonstrations should continue over a long period of time. A 25-year or longer period would be useful to give clear data on the replacement of systems, remodeling and modernizing of units, refinancing of mortgages, retention of residents, the passing of units to the next generation, and the ability of the Associations to generate capital internally to continue the production of additional housing.

3. In the shorter term, however, we propose to make arrangements for a formal evaluation of the process and interim results, targeting the Spring of 1989 as the date for reporting the findings to this Committee.

Exhibit I

Table 1

Average Interest Paid on Savings and Effective Mortgage Rates and Purchase Price of Newly-Built and Previously-Occupied Single Family Homes: United States, 1970-1983

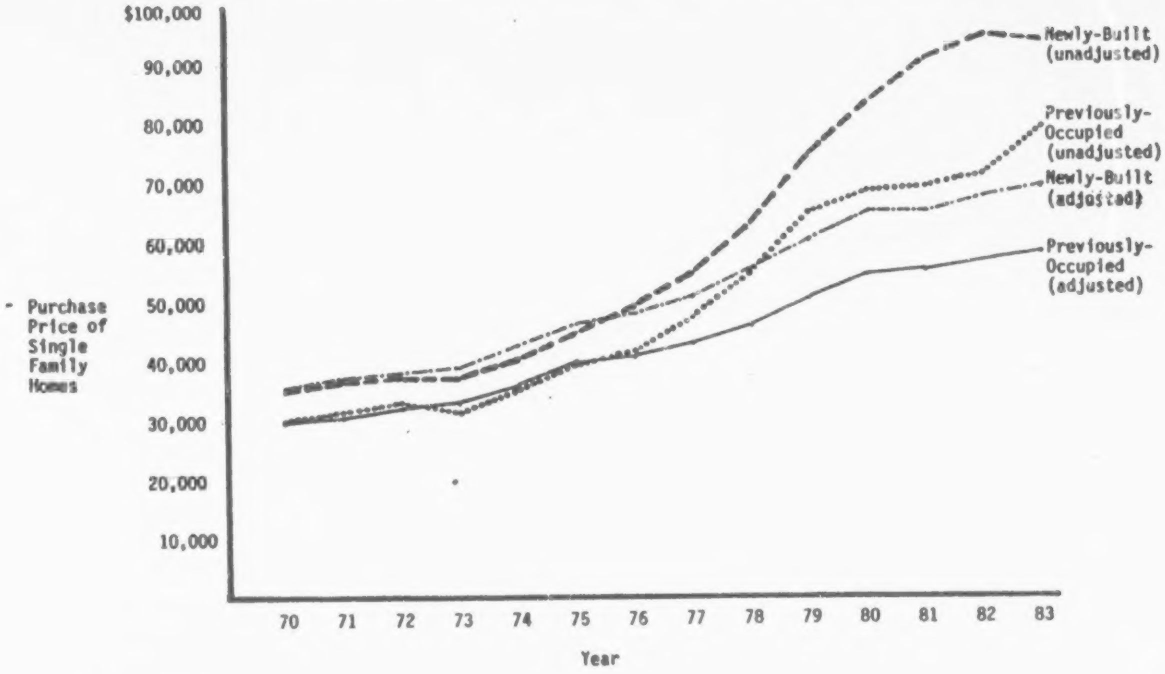
Year	Average Interest Paid on Savings Accounts	Newly-Built Effective Mortgage Rate	Newly-Built Purchase Price	Previously-Occupied Effective Mortgage Rate	Previously-Occupied Purchase Price
1970	5.14	8.45	$35,500	8.36	$30,000
1971	5.30	7.74	36,300	7.67	31,700
1972	5.37	7.60	37,300	7.51	33,400
1973	5.51	7.96	37,000	7.98	31,500
1974	5.96	8.92	40,100	8.97	35,500
1975	6.21	9.00	44,700	9.17	39,200
1976	6.31	9.00	49,100	9.10	42,000
1977	6.39	9.02	54,400	9.02	47,600
1978	6.56	9.56	62,800	9.61	54,500
1979	7.29	10.78	74,400	10.89	64,800
1980	8.78	12.66	83,200	12.90	68,300
1981	10.71	14.70	90,300	15.00	68,500
1982	11.19	15.14	94,100	15.33	70,700
1983	9.71	12.57	93,900	12.75	79,300

Source: Savings & Home Financing Source Book, 1983.

FIGURE I

Exhibit I

Adjusted* and Unadjusted Purchase Price of Newly-Built and Previously-Occupied Single Family Homes: United States, 1970-1983

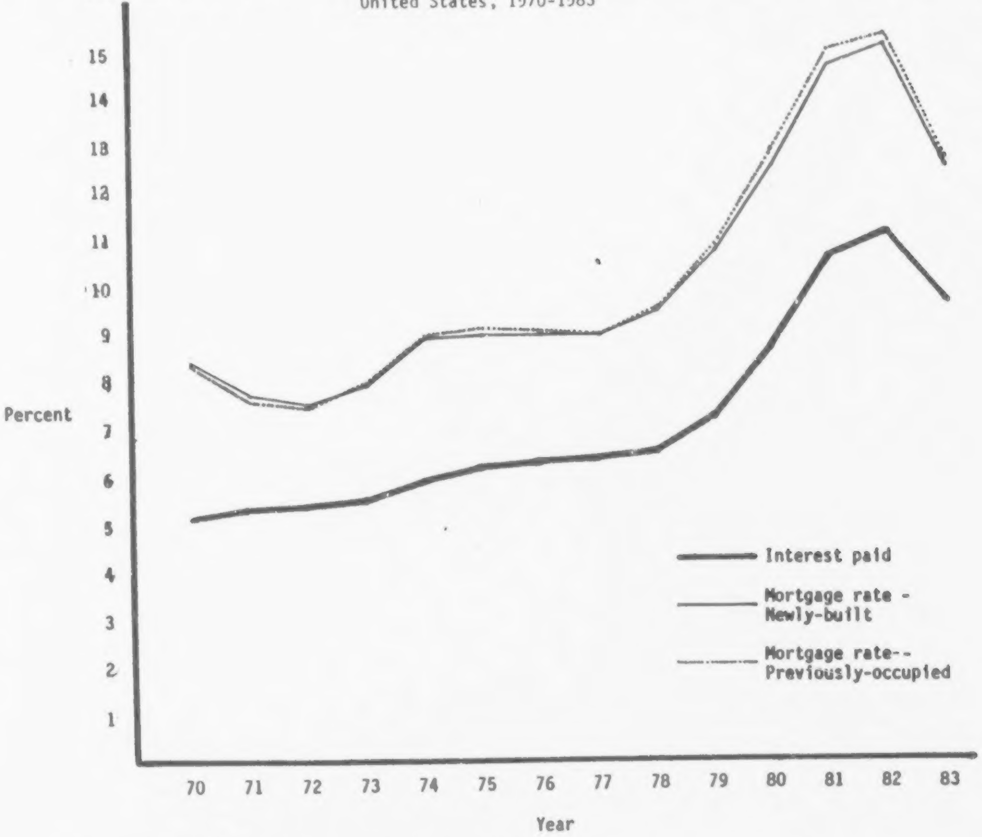


Source: Savings and Home Financing Source Book, 1983

* Adjusted for Inflation

Exhibit II

Distribution of Interest Paid on Savings Accounts and Mortgage Rates in the United States, 1970-1983



Source: Savings and Home Financing Source Book, 1983

Exhibit III

Table 3.0

Selected Characteristics of Rental Housing Units:
United States, 1970 and 1983

Characteristic	1970	1983
Total Number of Rental Units*	23,560	29,914
Total Rental Units as Percent of All Housing Units	34.3	31.9
Median Monthly Rent	$108.00	$315.00
Gross Rent as a Percent of Annual Income	20.0	29.0

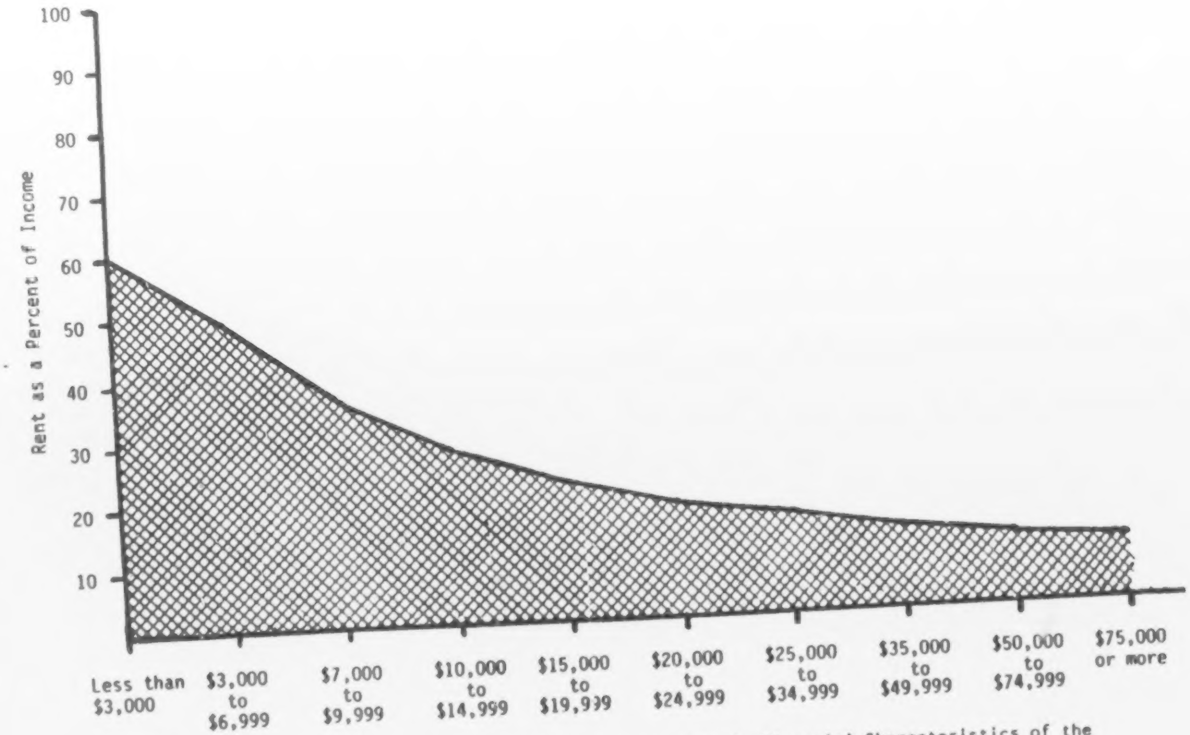
Source: Annual Housing Survey: 1983 (Part A, General Housing Characteristics).

* In Thousands

Exhibit III

Figure 111.1

Gross Rent as a Percent of Income for Selected Income Groups of Families and Primary Individuals in Renter-Occupied Housing Units: United States, 1981



Source: U.S. Bureau of the Census, Annual Housing Survey: Part C, Financial Characteristics of the Housing Inventory, 1981

Table 3.1

Exhibit III

The Development of Rental Housing Units in the Washington, D.C. Metropolitan Area: 1980 - 1984

Year	Rental Units Built	Rental Units Converted to Condominiums	Converted Condominiums Remained Rental	Net Difference
1980	3,802*	7,850	400	-3,648
1981	1,277	7,690	250	-6,163
1982	1,053	3,360	400	-1,907
1983	3,210	1,580	675	2,305
1984	3,256	3,750	575	81

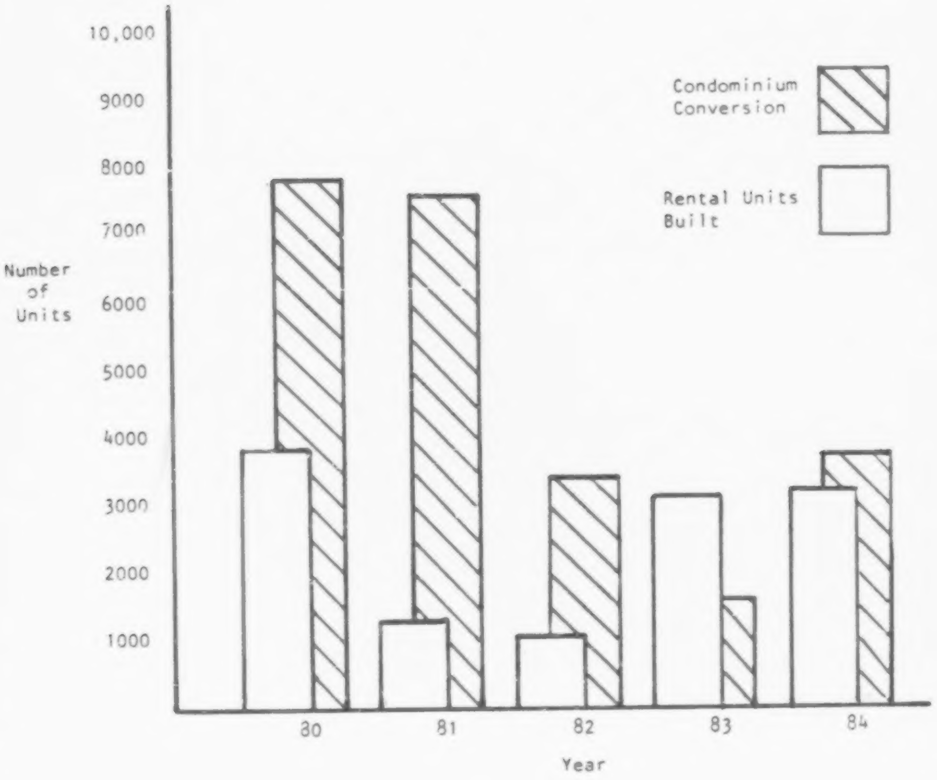
SOURCE: The Rental Housing Market in the Washington Metropolitan Area. (January 1985)

* Includes 1227 units from 1979 not included in 1980 count.

Exhibit III

FIGURE III.2

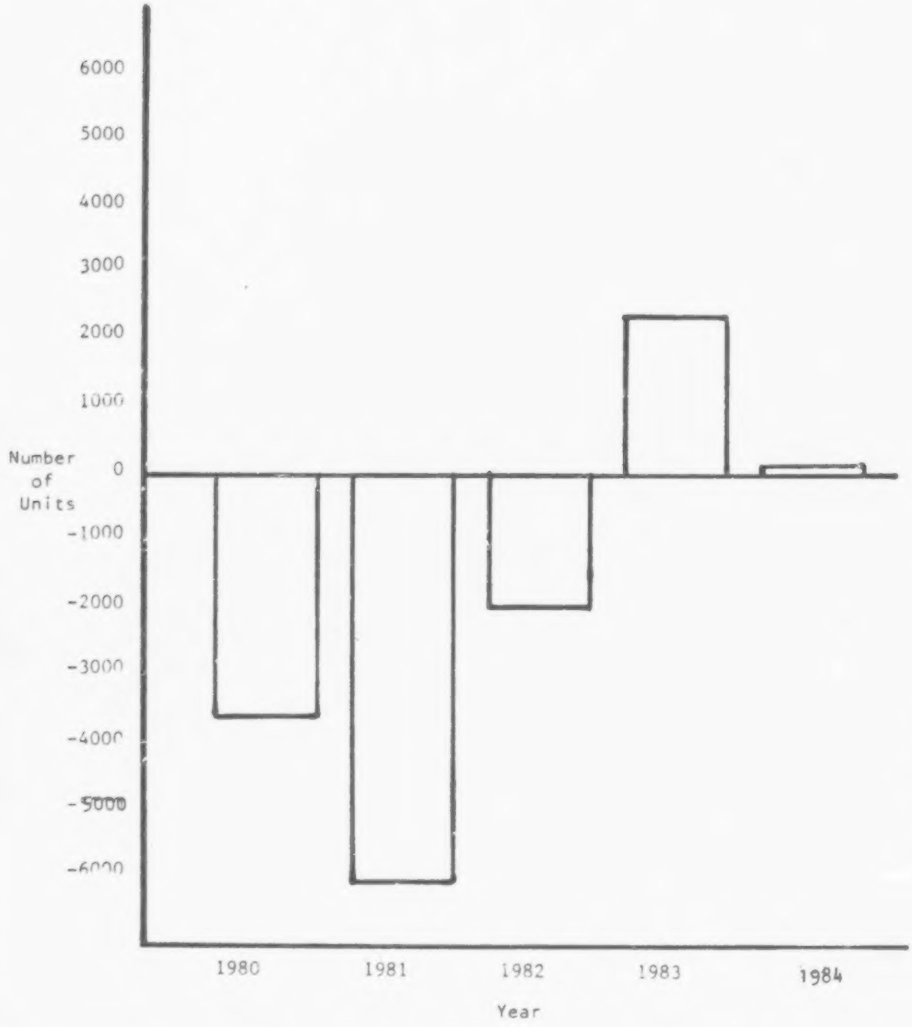
Rental Units Built and Rental Units Converted to Condominium in the Washington, D.C. Metropolitan Area: 1980-1984



Source: The Rental Housing Market in the Washington Metropolitan Area (January 1985)

FIGURE III.3 Exhibit III

Net Growth of Rental Housing Uuits in the Washington, D.C. Metropolitan Area: 1980-1984



Source: The Rental Housing Market in the Washington Metropolitan Area (January 1985)

Exhibit IV

Table 4.0

Selected Characteristics of Purchasing A Previously-Occupied Single Family Home: United States, 1970 and 1983

Characteristic	1970	1983
Average Price of a Single Family Home	$30,000	$79,300
Average Annual Income Needed to Qualify for Mortgage	$ 9,591	$36,297
Median Annual Income of Renters	$ 6,300	$12,400
Percent of Persons Who Rent, Who Would Qualify for Mortgage	27.9	7.5

Sources: Savings & Home Financing Source Book, 1983 and Annual Housing Survey: 1983.

Exhibit V

MUTUAL HOUSING ASSOCIATION OF BALTIMORE
ALAMEDA PLACE -- COSTS AND FINANCING SOURCES*
FEBRUARY 1985

	SECTION I (8 Units)	SECTION II (25 Units)	SECTION III (Site Work& 16 Units)	SECTION IV (61 Units)	TOTAL (110 Units)
1. Total Cost	$462,000	$1,315,000	$1,732,800	$3,426,600	$6,936,400
2. Construction Financing	CDA 374,000	IRB 1,000,000	CDA 1,732,800	CDA 3,426,600	6,936,400
	NR 88,000	UDAG 145,000			
		NR 170,000			
3. Permanent Financing Sources					
A. Member Fees	14,000	50,000	32,000	122,000	218,000
B. Mortgage (IRB)	160,000	470,000	430,000	1,000,000	2,060,000
C. Capital Grants					4,658,400
--Baltimore Fundraising, USF&G, etc.		400,000			400,000
--State Community Dev. Administration	100,000				100,000
--Neighborhood Rein.	188,000	70,000	670,800	71,200	1,000,000
--Urban Dev. Action Grt.		325,000			325,000
--City Comm. Dev. Blk. Grt.			600,000**		600,000
--To Be Raised				2,233,400	2,233,400
PERMANENT FINANCING TOTAL	$462,000	$1,315,000	$1,732,800	$3,426,600	$6,936,400

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* Relevant costs and funding, fairly stated in all material respects, subject to independent audit.

**Site work and road construction being funded by City Community Development Block Grant funds at cost of $600,000.

Exhibit VI

SUMMARY OF PROGRAM REVIEW LETTER: BALTIMORE MUTUAL HOUSING ASSOCIATION

Neighborhood Reinvestment conducted a Program Review of the Mutual Housing Association of Baltimore, Inc. (MHAB) July 9 through 12, 1984. The program review was an opportunity for the MHAB to reflect on its past, current and projected activities. Neighborhood Reinvestment's role in the review process was to assist the partners and staff in examining their assumptions concerning goals, objectives, procedures and the criteria for a successful Mutual Housing Association.

During the visit, we had an opportunity to meet with the Mutual Housing Association of Baltimore's staff and representatives of each partnership group. At each of these meetings, we shared our observations. The recommendations by Neighborhood Reinvestment are options for the Board to consider as it formulates policy. It is the Board's responsibility to weigh the options and make the appropriate decisions.

Overview: The Mutual Housing Association of Baltimore has made tremendous progress over the past year. The Mutual Housing partnership has taken a new housing concept, and through tireless work has made it a reality.

The Mutual Housing Association has successfully completed its demonstration project of eight units. MHAB has completed its first stage of organizational development. The next stage of development will require a concentrated focus due to the increase in the number of families and housing units under construction.

Board Organization and Operation: After meeting with the partners, reviewing the minutes and interviewing each staff person a number of recommendations were made:

o A board retreat to clarify the roles and responsibilities of the Board, its committees, and establish goals for the next year was recommended.

o The nominating committee was encouraged to recruit and nominate a candidate for President of the Board. (The past president had just resigned to accept a job offer in another city.)

Management: A number of detailed recommendations were made on the host of operational issues that were facing the Board and staff. The major recommendations were:

o Consider a revised staffing pattern, including the hiring of an Executive Vice President deeply experienced in new construction.

o Purchase a computer to improve the efficiency of the various administrative functions.

o Revise the budget reporting format so that the Board and various committees could more easily track expenditures against their management plan.

o Improve the financial reports to better reflect the vastly increased activity. Specifically, separate reports were recommended for construction, maintenance of occupied units and Mutual Housing Association management.

Resource development: Given the complex financial structure of the Mutual Housing Association, we recommended a continuing education program for the Board to assure their understanding of their financial responsibilities.

Additionally, we recommended ongoing evaluation of the staffing pattern and performance.

Summary: The Mutual Housing Association has made tremendous progress. Their volunteer Board and partnership leaders were congratulated. We witnessed a very high activity level and impressive dedication by their staff. While we recommended a number of improvements, these should be taken as part of the Association's growing sophistication as a substantial housing organization.

Since the program review, the Board of the Mutual Housing Association has acted on the major recommendations. An Executive Vice President has been hired. The financial and budget reports have been revised. A Board President has been recruited. Additionally, many of the more detailed recommendations have been reviewed and instituted.

Mr. WHITESIDE. In the Baltimore demonstration, this helped them move substantially along with their actual physical development. They were already well along in their organizational development; but, they now have 33 units completed, almost all occupied, and another 16 we will be breaking ground this spring. This begins to give us a sufficient volume of activity so that we can begin recording and drawing conclusions regarding the quality of maintenance and the quality of management, which are really the significant elements of this demonstration. How to build houses is a well-known science, but how to get low-income tenants to feel a sense of pride of ownership and to maintain them well is something that we hope we have learned from Europe in this, and that is the point of our——

Senator GARN. Some people observed the $1 million funding has already demonstrated the high cost of mutual housing; would you agree with that?

Mr. WHITESIDE. I would not. It seems high compared to our regular budget, where with a million dollars we can develop five NHS's serving five neighborhoods that might have 30,000 or 40,000 people living in them.

As you know, subsidized housing is an expensive business. The Mutual Housing Association's expenses are far below previous subsidized efforts and for the record, I would be happy to give you a comparison for section 8. What makes it appear high is that the——

Senator GARN. Most anything looks good compared to section 8. [Laughter.]

Mr. WHITESIDE. Thank you.

What makes the cost of this demonstration appear high is that the total subsidy appears in the first year, rather than being spread over 30 or 40 years. The beauty of the front-end subsidy is that the subsidizer is out from that point on, and it is up to the nonprofit entity that is operating the housing to deal with it as they must in future years to keep it operating.

Senator GARN. We would appreciate it if you would supply that comparison for the record.

[The information follows:]

ANNUAL AND CUMULATIVE PER UNIT SUBSIDY COST FOR SECTION 202/8 NEW CONSTRUCTION HOUSING FOR ELDERLY VERSUS MUTUAL HOUSING OVER 40-YEAR TERM OF SUBSIDY

Year[1]	Section 8 new construction		Mutual new construction	
	Annual[2] subsidy	Cumulative subsidy	Annual[3] subsidy	Cumulative subsidy
1984	$6,027	$6,027	$42,350	$42,350
1985	30,135	36,162		42,350
1994	30,135	66,297		42,350
1999	30,135	96,432		42,350
2004	30,135	126,567		42,350
2009	30,135	156,702		42,350
2014	30,135	186,837		42,350
2019	30,135	216,972		42,350
2024	30,135	247,107		42,350

[1] Years and the annual subsidy are presented in 5-year intervals.

[2] Based on 1984 per unit cost of 13,224 newly constructed units. No adjustments for inflation or other economic trends were factored in.

[3] Based on the total projected capital grants of $4,658,400 for 110 units. (The actual capital grants for the 33 units completed to date are $32,818 per unit, but site work will increase the average cost for the total complex.)

SOURCES: U.S. Department of Housing and Urban Development, Assisted Housing Accounting System (AHAS); and Mutual Housing Association of Baltimore Cost and Financing Sources, February 1985.

VERMONT NHS'S

Senator GARN. Senator Proxmire.

Senator PROXMIRE. Senator Leahy asked me to ask you this question first and I will ask it first before I get into some questions I have. As a result of the reduction in your budget, will the NHS activities in Barre and Randolph, VT, be terminated or reduced?

Mr. WHITESIDE. Absolutely not. [Laughter.]

Senator PROXMIRE. Well, the ranking member of the subcommittee will be happy to know that. [Laughter.]

Mr. WHITESIDE. I should enlarge that these are operating programs that are independent of us. If there is an impact, it will be that our technical services availability will be reduced, but they are strong programs that are currently running very effectively.

Senator PROXMIRE. Mr. Whiteside, I have the same respect for you that the chairman has expressed. I think you have done a great job over the years. One of the things that impressed me most was when years ago I tried to push on you more funds and you said, "No, no, we don't want to go too fast, we want to be sure when we spend this money we spend it carefully and gets results." I think you are about the first witness I have ever had coming from the executive branch who, under any President, ever had that reaction. I was most encouraged. It indicates when you ask for something you can really justify it and you deserve it.

I notice in your statement you say we have been able not only to reverse the decline in scores of previous declining lower income neighborhoods through the dedicated work of Neighborhood Housing Services, but it is happening without large-scale displacement of lower income families. We are seeing steady increasing numbers of these NHS neighborhoods to achieve a healthy self reliant state. They are now marked by substantial improvements in housing stock and their physical characterization and normally functioning real estate, strengthened community organization and visible pride on the part of residents living in the neighborhood of choice. That is marvelous, and your budget has been so low and you have reached out, even Richland County, WI, I notice, has benefitted. I am sure there will be counties in Utah who have benefitted, too. [Laughter.]

Senator GARN. There are. We went through a stage where I had to defend myself as being part of the communist conspiracy for supporting NHS in Salt Lake City, but I survived those charges.

Senator PROXMIRE. I hope you beat that rap. [Laughter.]

I do think in the light of this, you are a most unusual agency, and we should give you every consideration.

INTEREST RATES AND FEDERAL DEFICIT

The Neighborhood Reinvestment Program was enacted in 1978. It has experienced significant changes in interest rates, urban development activity, and other economic influences. What effect would another increase of interest rates have on your operation?

Mr. WHITESIDE. It would have the impact in the neighborhood of causing people who are now bankable, who can use privately available funds, to become unbankable. Then if they are going to receive assistance in purchasing a vacant home or in rehabilitating a home that they live in, this will place greater demand on public sources of low-interest money and on our own secondary market for the revolving loan funds which are the NHS's funds of low-interest money.

Senator PROXMIRE. So you have a real interest in getting the deficit under control. To the extent the deficit tends to drive up interest rates, the Federal Government has to borrow more money, obviously the demand increases. Do you see any effect if significant cuts are made in the Federal budget for housing and community development over the next several years? That is a big target. At the same time, you have on the other side the fact because it is a lot of money, obviously if the Federal Government isn't borrowing it for housing, it tends to lower interest rates.

Mr. WHITESIDE. I would like to give you an extended answer for the record, Senator Proxmire. That deserves a thoughtful answer, and I don't think you have time for me to come up with one on the spur of the moment.

[The information follows:]

You pose the dilemma well. Federal borrowing will tend to increase interest rates or to keep them high, and reductions in Federal borrowing will tend to decrease, or minimize the increase in interest rates. Under those circumstances, wouldn't the negative impact on NHS neighborhoods of reductions in the Federal budget for housing and community development be offset by the positive impact of reduced interest rates?

With regard to the benefits of reduced interest rates, the median income of families in NHS neighborhoods averages about 75 percent of average citywide median incomes, and NHS clients are drawn, for the most part, from the lower income strata of the NHS neighborhoods. In order for large numbers of these clients to become "bankable," very substantial reductions in interest rates would have to occur. Given the size of projected deficits, and the other pressures on interest rates, I see little chance of that happening in the next several years.

With regard to cuts in housing and community development resources, there have already been substantial cuts. These cuts, along with the impact the deregulation of interest on savings had on interest rates on mortgages and increases in the costs of production of housing, have reduced homeownership opportunities and virtually halted the production and rehabilitation of rental housing for lower income families. I am concerned that the doubling-up and occupancy of substandard units which these trends are encouraging is producing new slums, causing our Nation to lose hard-won ground in efforts to improve neighborhoods.

In NHS neighborhoods, even with increased private sector resources having been made available, housing and community development cuts have resulted in very limited funds being available today to capitalize revolving loan funds, to write down acquisition costs of vacant buildings so that they can be rehabilitated and put back on the market at neighborhood price levels, to subsidize the difference in the rent a lower income family can afford and the income a rehabilitated unit must yield, to finance badly needed capital improvements, etc.

Further cuts, particularly in the Community Development Block Grant Program, would have very negative effects on NHS's revitalization work, far in excess of any foreseeable benefits of interest rate reductions.

IMPACT OF CHANGES IN TAX LAWS

Senator PROXMIRE. One final question. The Neighborhood Reinvestment always relied heavily on local initiative. Do you think an initiative would be significantly affected by changes in the tax laws along the lines of the Treasury or the Bradley-Gephardt or Kemp-Kasten proposals?

Mr. WHITESIDE. I think those proposals tend to have a large impact on the availability of rental housing——

Senator PROXMIRE. Generally a negative impact?

Mr. WHITESIDE. Yes, I think it will make rental housing more expensive or create less of it because of the lack of the incentive to produce. But, again, I think that deserves an extended response.

Senator PROXMIRE. Fine. Would you give that to us for the record?

Mr. WHITESIDE. Yes.

Senator PROXMIRE. Thank you, Mr. Chairman.

[The information follows:]

Changes	Treasury Proposal	Kemp-Kasten	Bradley-Gephardt
Depreciation	Longer lives	Modified accel. depn.	Longer lives
Capital Gains	Taxed at regular rates	Taxed at regular rates	Taxed at regular rates
Rehab Credits	Repeals	Repeals	Repeals
Limited Partnerships	Taxed if in excess of 35 members	Retains	Retains
Individual Tax Rates	Lowers	Lowers	Lowers
Corporate Tax Rates	Lowers, but tends to reduce disparity among industries	Lowers, but tends to reduce disparity among industries	Lowers, but tends to reduce disparity among industries
Individual Charitable Dedns.	Limits to deductions in excess of 2% of AGI	Retains but limits	Retains
Corporate Charitable Dedns.	Eliminates 10% limit (except for contribs. to private charities and corp. fdns.)	Retains present deductibility of contributions up to 10% of gross income	50% of total contributions deductible
"Homeownership" Deductions	Retains mortgage interest dedn. for principal res.	Retains mortgage interest dedn. for principal resident	Retains mortgage interest dedn. for principal resident against 14% base
	Eliminates real estate tax dedn.	Retains	Retains
Exemption of State Bond Interest	Eliminates exemptn. for real estate finance	Eliminates exemptn. for real estate finance	Eliminates exemptn. for real estate finance

My partial response in the hearing referred to the immediate impact on rent levels and apartment production which tax law changes might have. Expanding on this response, I have outlined on the attached chart what I understand to be the key proposed changes with regard to reinvestment decisions.

It seems to me that the proposed elimination of accelerated depreciation, elimination of the favored treatment of capital gains, and the flattening of the individual income tax rate structure would all combine to remove a major incentive to produce and operate rental housing. In the long run this may bring greater rationality to the production and operation of rental housing, and perhaps eliminate the low quality which is inherent in units produced with an eye to a short holding period which optimizes tax benefits. It would, however, further reduce incentives to produce rental housing for the bottom two-thirds of the income spectrum, since rental income, as the then sole revenue to the property owner, would need to be higher than at present to cover costs and to provide an appropriate return on investment.

To achieve a truly rational approach to housing policy, these tax law changes would be coupled with direct subsidies to encourage production and operation of housing for those determined to merit assistance. In such an environment, a network of Mutual Housing Associations, producing and operating housing in the public interest, would be a useful policy vehicle. However, such a scenario is clearly not the intent of these proposals, and the immediate impact of such changes is in the direction of further reducing rental housing opportunities for low, moderate and middle income families.

The Treasury's proposal to limit tax shelters utilizing limited partnerships, the proposed elimination of the exemption for state bond interest, when the purpose of the bonds is to finance real estate, the proposed repeal of rehabilitation credits, and the flattening of the individual income tax rate structure, all tend to curtail production or rehabilitation of units for middle, moderate and low income families. Again, while the proposals can be seen as steps toward rationalization of a process which has been getting pretty crazy, there is nothing in sight to replace that process.

The proposals regarding homeownership deductions would have little or no impact on NHS neighborhoods. By and large, lower income Americans have purchased homes with a eye to security and independence, and tax shelter has not been a significant factor.

The proposal which we have been watching with greatest concern has been with regard to the treatment of charitable contributions. While most contributions to NHSs are made by corporations and foundations, the proposed limitation on the deductibility of individual charitable contributions would, if adopted, tend to reduce total resources available to support charitable activity, and increase competition for the remaining resources, including corporate and foundation contributions. The Gephardt-Bradley proposal to limit to 50% corporate deductions of charitable contributions would, if adopted, be certain to reduce the operating income of NHSs. Approximately 75% of the contributions received by NHSs in support of their operating budgets come from corporations.

SUBMITTED QUESTIONS

Senator GARN. There will be additional questions for your response for the record as well. We do appreciate you coming and thank you very much.

Mr. WHITESIDE. Thank you very much.

[The following questions were not asked at the hearing but were submitted to the Corporation for response for the record:]

QUESTIONS SUBMITTED BY SENATOR GARN

Neighborhood Housing Services New Starts

Question: On page 3 of your statement, you indicated that 12 new Neighborhood Housing Services starts will be undertaken in FY 86.

Given your concerns over "thinning out" services to existing NHSs, do you feel that undertaking new starts is advisable with your budgetary constraints?

Answer: In light of the projected 8.8% reduction in all sources of income in FY 1986, much consideration has been given to achieving the best possible balance between new NHS developments and the provision of technical services to established NHS programs. Our diminishing capacity to deliver necessary quality technical services - as funding and staffing needs fail to keep pace with the growth in numbers of NHS programs - is of deep concern to us, and the existing network of NHSs as well. It is important to note, however, that the ability of NHSs to expand into additional neighborhoods is critically important to local programs in broadening their base of support and meeting local pressures to service additional, and often more difficult, neighborhoods. At the same time, the expansion process focuses not only on bringing needed services to a new neighborhood, but also concentrates on specific strategies and plans to complete neighborhood goals and achieve self-reliance in the initial area. As such, 9 or 10 of the 12 NHS program starts planned for FY 1986 will most likely be geographic expansions of existing NHSs. A further reduction here would have as adverse an impact as a further reduction in our technical services capabilities.

Homeownership Demonstration Program

Question: One of the few new initiatives being pursued by HUD despite their budget constraints is a Homeownership Demonstration Program for public housing residents.

Have you worked with HUD on this effort?

Answer: No, we have not worked with HUD on the public housing homeownership demonstration, but we will be watching it with interest. It will be a challenge to select families from the public housing population with a reasonable chance of success as homeowners.

Question: Do you have any observations as to how Mutual Housing could be integrated into or complement public housing homeownership?

Answer: A Mutual Housing Association would be a useful organizational vehicle for providing selected public housing tenants with "a step up from rental." The partnership board of directors would bring the management and housing experience of the private sector and local government board members to the assistance of the former public housing tenants in making policy decisions regarding the operation of the Mutual Housing Associations units, and the professional staff would assure quality day-to-day management.

Sufficient subsidy resources would need to be available to acquire and renovate the former public housing structures, and, if the former public housing tenants' incomes were too low to pay rents which would cover operating costs and debt service, ongoing subsidies to ensure continuing operation and maintenance would need to be provided.

Questions Submitted by Senator Leahy

Rural Housing Programs

Question: In your testimony, you mentioned that rural Neighborhood Housing Service programs are operating in Wisconsin, New York, and Vermont, will the programs be expanded beyond these states in 1986?

Answer: Given reduced resources, we project that development of NHSs will be limited primarily to expansions in existing NHS communities. Given rural NHSs' need for outside funds to supplement local public and private resources in operating the NHS, we cannot predict at this time whether our two or three new sites in FY 1986 will be rural or urban.

With regard to expanding our activities in rural areas, we should mention that in FY 1985 we will complete development in Santa Fe, New Mexico and we anticpate beginning development of a multi-community NHS in Rutland City, West Rutland, Castleton, and Fair Haven, Vermont late in fiscal 1985. A rural NHS also operates in Mabton, Washington.

Reduced Level of Funding

Question: In 1986 your level of requested funding is below the 1985 and below the 1981 adjusted for inflation level, does this reduction reflect a reduced federal commitment or a more efficient operation of this program?

Answer: While we have been compelled to increase our efficiency year by year in an effort to continue accomplishing our mission with shrinking real resources, that does not explain the fiscal 1986 request. The 5.4% reduction in appropriated funds requested for fiscal year 1986 is a reflection of the Administration's effort to reduce expenditures and minimize the federal deficit.

This coincides with reductions in other sources of Neighborhood Reinvestment's income, reducing the total projected resources available to support our work to 91.2% of the funding available in fiscal 1985.

Vermont Activities

Question: Please provide the Committee a summary of your efforts in Vermont in fiscal year 1985 and your expected activities in fiscal year 1986.

Answer: NHS programs have been operating in East Valley and Barre, Vermont since the summers of 1983 and 1984, respectively. In fiscal year 1985, in addition to informational and educational conference activities, our assistance has consisted of:

East Valley

- work with the staff and board in designing goal-setting workshops;
- support for their expansion proposal to the State Planning Office;
- providing an intern to conduct research and prepare documentation to achieve National Historic Preservation Register status for a highly visible, abandoned historic schoolhouse on Route 14 in their community;
- providing a $30,000 reimbursable grant to allow East Valley to continue to make critically needed loans to low income residents, pending a loan sale to our secondary market (an example of the need that this bridge loan fulfilled was East Valley's immediate ability to undertake weatherization and the installation of a heating system in the home of a terminally ill cancer patient who had no heat);

Barre

- intensive support in the early stages of program operations including staff, board and loan committee training, and the implementation of all loan, accounting and bookkeeping procedures;
- help in drafting and negotiating a lump sum draw-down of CDBG funds which entailed the negotiation of very advantageous terms for conventional lending by local banks in the target neighborhood;
- a comprehensive program review to provide the program with a detailed status report on partnership and systems progress and issues;
- a small competitive grant award to the NHS based on a proposal from neighborhood residents to conduct weatherization training and to prepare an exhibit for the Barre Home Show in April 1985;
- a two-day vision and goal-setting workshop for the Barre staff and board; and

- a review of grant applications, which are currently under consideration, for two projects -- the development of a playground on a visible, eyesore lot in the neighborhood which has been donated to the NHS by a local granite company; and a paint project to restore, with architectural sensitivity, the exteriors of structures on one of their neighborhood blocks which has great potential for major neighborhood impact.

Throughout the remainder of the year, technical services in the design, implementation and evaluation of new and ongoing local projects will continue to the extent possible in both East Valley and Barre. We will also be doing preliminary work on the new NHS development which would serve the Rutland City, West Rutland, Castleton and Fair Haven consortium of communities in Rutland County.

Though it is highly likely that a similar level of assistance will be necessary and desirable in FY 1986, particularly in light of East Valley's planned expansion and the completion of the development in Rutland County, it is too early to project how a reduction in our FY 1986 income may affect our capacity to be responsive to all situations.

AMERICAN BATTLE MONUMENTS COMMISSION

STATEMENT OF MAJ. GEN. ANDREW J. ADAMS, SECRETARY, AMERICAN BATTLE MONUMENTS COMMISSION

OPENING REMARKS

Senator GARN. The next agency will be the American Battle Monuments Commission.

General Adams, we are happy to welcome you here this morning. The principal functions of the American Battle Monuments Commission are to commemorate the achievements and sacrifices of the U.S. armed forces through the construction and maintenance of suitable memorial shrines where the U.S. armed forces have served and to maintain permanent American military burial grounds in foreign countries.

The Commission administers, operates, and maintains 24 permanent American military cemetery memorials, 14 separate monuments in 12 foreign countries, and 4 memorials in the United States. During fiscal year 1984, the cemeteries, monuments, and memorials were visited by almost 12 million people. Special ceremonies observing the 40th anniversary of D-Day were held in Normandy. In addition to its other activities, the Commission provides information and assistance on request to relatives and friends of the war dead interred in or commemorated at its facilities.

In fiscal year 1985, the Commission is requesting $10,954,000 and 387 positions. This is a decrease of $111,000 from the fiscal year 1985 appropriation.

Please proceed with your opening remarks.

PREPARED STATEMENT

General ADAMS. Mr. Chairman, as you have copies of my prepared statement, I will be happy to summarize.

[The statement follows:]

STATEMENT OF MAJ. GEN. ANDREW J. ADAMS

Mr. Chairman and members of the subcommittee, thank you for the opportunity to testify today in support of the American Battle Monuments Commission's fiscal 1986 appropriation request.

Since our last appearance before you, the Utah Beach Monument was completed and dedicated in an impressive ceremony on June 5, 1984, in conjunction with the 40th anniversary celebrations of the Allied D-Day landings in Normandy during World War II. The dedicatory address was given by the Honorable John O. Marsh, Secretary of the Army. Other speakers at the dedication were the Honorable Evan Galbraith, Ambassador to France; Gen. Rene Imbot, Chief of Staff of the French Army; Gen. J. Lawton Collins, U.S.A. (ret.), Commander of the VII Corps during the landings; M. Dufoix, prefet of La Manche; Mayor de Vallaveille of Ste. Marie du Mont, who was wounded during the landings; Dean Leo of the American Cathedral of Paris, and myself. Brig. Gen. John W. Donaldson, U.S.A. (ret), the officer in charge of our European office performed ably as the master of ceremonies.

Hundreds of American and French veterans who participated in the landings and members of their families attended the ceremony, as well as a delegation to the 40th anniversary celebrations led by Senator Strom Thurmond. Because of a conflict in schedules, the congressional delegation to the 40th anniversary celebrations led by Congressman Sonny Montgomery could not attend the dedication itself, but toured the monument before the dedication.

Also on June 5, 1984, President Reagan addressed assembled American and French veterans at the Commission's Pointe du Hoc Monument near Cricqueville, France, 8 miles west of Omaha Beach, where the 2d Ranger Battalion against determined enemy resistance scaled a 100-foot cliff to seize its objective on D-Day.

The next day on June 6, 1984, President Reagan delivered another stirring address during a memorial ceremony held at the Commission's Normandy American Cemetery overlooking Omaha Beach. In his address, the President recalled the heroic feats of Americans and their Allies during the D-Day landings on the beaches. Among the many honored guests attending the ceremony was President Mitterand of France.

Landscaping of the Saipan Monument is presently in progress. At our next meeting, we expect to have photographs to show you of the completed work.

When the Honolulu Memorial was erected, design of the capstones for the Courts of the Missing did not prevent water from intruding behind the stone tablets on which the names of the missing in action are engraved. As a consequence, over the years water perculated through the stone causing severe staining and spalling. Some of the tablets were so badly stained that they had become nearly illegible. We have been working over the past 5 years to correct these problems. New capstones have been procured and installed, a water barrier has been placed beneath the capstones, the tablets have been cleaned and sanded, and 80 badly spalled tablets are in the process of being replaced. Meanwhile, the tablets are drying out and the stains appear to be bleaching in the sun. The memorial is regaining its original pristine beauty.

Moving on to fiscal matters, the Commission's appropriation request for fiscal 1986 is $10,954,000. This is $111,000 less than our fiscal 1985 appropriation. The average inflation rate in the countries where our installations are located continues at about 10 percent. Fortunately, dollar exchange rates have been good. If they continue at current levels, we should be able to accomplish satisfactorily programmed care and maintenance of the shrines for which we are responsible in fiscal 1986.

A breakdown of the decreases in our fiscal 1986 appropriation request by object classification is as follows: $44,000 in contractual maintenance and repairs; $16,000 in the purchase of supplies, materials, and spare parts; and $325,000 in capital improvements. Offsetting these decreases in part are increases of $237,000 in salaries and personnel benefits; $4,000 in travel and transportation of employees; $26,000 in rent, communications, and utilities; and $7,000 in the replacement of wornout and uneconomically repairable equipment and vehicles.

This concludes my prepared statement. We will be pleased to respond to your questions. Thank you.

SUMMARY OF STATEMENT

General ADAMS. President Reagan attended the 40th anniversary celebration of the June 6, 1944 D-Day landing on Normandy. While there, he spoke about out Pointe du Hoc Monument and Normandy American Cemetery Memorial on June 6.

Concerning the Commission's major memorial projects, Utah Beach Monument was completed in May 1984 and dedicated in an impressive ceremony on June 5, 1984. The Saipan Monument is in the process of being landscaped. The problem of the water damage causing staining on the tablets of the Courts of the Missing in Honolulu appeared to be solved by the replacement of the capstones for the Courts of the Missing and installation of waterproof barrier beneath it. All that remains is installation of the replacement tablets.

Proceeding to fiscal matters, the Commission appropriation request for fiscal 1986 is $10,954,000. This, as you said, is $111,000 less than the current year. Again, this past year, the average inflation rate in the countries where our installations are located is about 10 percent annually.

Concerning dollar exchange rates, we are optimistic that they will stay high enough for us to perform care and maintenance for the shrines for which we are responsible. This completes my statement, Mr. Chairman.

Senator GARN. Thank you, general.

MAJOR COMMEMORATIVE PROJECTS

You completed three major projects during fiscal year 1984.

What projects will you be engaged in during the remainder of fiscal years 1985 and 1986?

General ADAMS. In fiscal year 1985, we will be engaged in the following major projects. First, repair of the Chateau-Thierry terrace, phase I of II, at a cost of $155,000; construction of a water filtration plant at Lorraine at a cost of $82,000; drilling of a deep-water well at Normandy at a cost of $90,000; repair of the Henri-Chapelle terrace at a cost of $65,000; and replacement of the sprinkler system at Rhone at a cost of $90,000. In fiscal year 1986, we will be engaged in the following major projects. Drilling of a deep-water well at Ardennes at a cost of $60,000; enlargement of the visitor building at Normandy at a cost of $75,000; and repair of the Chateau-Thierry terrace, phase II, at a cost of $60,000.

ORIGINAL BUDGET REQUEST

Senator GARN. How does your fiscal year 1986 budget request compare to your original request to OMB?

General ADAMS. Our original request to OMB was for $11,445,000.

Senator GARN. What impact will that reduction have on your operation?

General ADAMS. We will be unable to do about $87,000 worth of repairs and about $404,000 worth of capital improvements. Of the capital improvements, the largest element is $250,000 for the design of a Korean war memorial.

Senator GARN. The biggest reduction from fiscal year 1985 is in the area of capital improvements. The $365,000 request is 52 percent below last year's level. How are you going to handle that and what will be the effect of the savings in capital improvements?

General ADAMS. This request for capital improvement projects is less than last year's level as you stated because a ceiling was imposed on the amount we could request by the Office of Management and Budget. Because of this ceiling, it was necessary for us to defer several capital improvement projects. The largest, which I mentioned before, was the design of a Korean war memorial at $250,000.

PERSONNEL COMPENSATION

Senator GARN. Roughly 54 percent of the request is for personnel compensation. How will the additional $234,000 over fiscal year 1985's level be used?

General ADAMS. Would you repeat that question, sir?

Senator GARN. Yes, roughly half or 54 percent of your request is for personnel compensation. You are getting an additional $245,000 over the fiscal year 1985 level? How will that be used in distribution and personnel costs?

General ADAMS. It will be used to defray the cost of in-grade increases for U.S. civilian and foreign national personnel, the full year application of statutory pay raises for U.S. civilian and military personnel, and, finally, the full year application for foreign national pay raises.

Senator GARN. The majority of the agencies appearing before the subcommittee have presented budget justifications reflecting a 5-percent reduction in salaries for personnel. This does not appear to be so for your Commission. Could you explain why the American Battle Monuments Commission is different than the other agencies?

General ADAMS. Yes, sir; I believe I can. By far, the great majority of our personnel are foreign nationals, whose pay scales, pay programs, are set by law in the country in which they are located. We may not unilaterally change the pay scales in these countries.

SAIPAN MONUMENT

Senator GARN. You noted in your opening statement that landscaping is being completed at the Saipan Monument. After you have completed that landscaping, will the Department of the Interior be responsible for maintaining the site?

General ADAMS. Yes, sir, the Department of Interior and the Park Service have assured us that once the landscaping is completed they will perform the day-to-day maintenance.

HOME LEAVE TRAVEL

Senator GARN. You are requesting $61,200 for home travel leave for U.S. eligible civilian employees and their dependents, a decrease of $10,000 from last year's request. How many overseas American civil servants do you now employ and how many did you have last year?

General ADAMS. We now employ 43 U.S. civilians overseas, and we had 43 last year, sir.

Senator GARN. How many eligible civilian employees and dependents are expected to take home leave this year?

General ADAMS. Forty-five eligible employees and dependents are expected to take home leave this year; thirty-three employees and dependents took home leave last year.

Senator GARN. How many took home leave last year?

General ADAMS. Thirty-three, sir.

Senator GARN. How often does the typical eligible employee take home leave over the past 10 years?

General ADAMS. Over the past 10 years, the typical eligible employee took home leave less than three times.

Senator GARN. Senator Proxmire?

Senator PROXMIRE. You mentioned that last year was a busy year for the Battle Monuments Commission, with the commemoration of the D-Day landing. This year we have the V-Day celebration. Will that have any effect at all on your operations?

General ADAMS. No, sir; we are not presently involved in that.

LOCAL NATIONAL EMPLOYEE PAY SCALES

Senator PROXMIRE. You said that you cannot unilaterally change the scale of pay?

General ADAMS. For foreign nationals.

Senator PROXMIRE. You hire about, what, about 380 foreign nationals?

General ADAMS. 387.

Senator PROXMIRE. Well, supposing you just reduced that by 5 percent and hire instead of 387, you hired 367, something of that kind, would you——

General ADAMS. We just wouldn't get our work done.

Senator PROXMIRE. Supposing you just did your high-priority work?

General ADAMS. We are already reduced to performing primarily high-priority work. As you know from former hearings, we have been reduced from 440 down to 387 employees.

Senator PROXMIRE. Sir, thank you. Thank you, Mr. Chairman.

SUBMITTED QUESTIONS

Senator GARN. Thank you. That is all we have for verbal questions. There will be some additional questions for your response in writing.

[The following questions were not asked at the hearing but were submitted to the Commission for response for the record:]

QUESTIONS SUBMITTED BY SENATOR GARN

OVERSEAS STRENGTH OF THE DOLLAR

Question: During FY 84, the strength of the dollar as compared to foreign currencies provided you additional funds for pay of local nationals as well as purchase of overseas supplies and materials. If the current foreign currency exchange rates in March of 1985 were to hold for an extended period of time, what savings could be affected in your overseas operations?

Answer: If currency exchange rates were to hold for an extended period of time, it is estimated that $600,000 to $1,000,000 could be realized. The ideal usage of these funds would be to apply them against our $3,000,000 backlog of unfunded maintenance, repair and improvement projects. Regrettably a rider to Public Law 98-386, the 2d Supplemental for fiscal 1984, amended Title IV, General Provisions, Section 409 of Public Law 98-371, the HUD and Independent Agencies Appropriations Act for fiscal 1985 to read as follows: "No part of any appropriation contained in this act for personnel compensation and benefits shall be available for other object classifications set forth in the budget estimates submitted for the appropriations." Unless legislative relief is obtained within the next few months, the Commission will be unable to apply any savings against its ever increasing backlog of unfunded projects. This would be a great shame. Furthermore, the current favorable exchange rates would enable these projects to be accomplished more cheaply at this time than at some later date when the rates may be less favorable.

Question: For the record, please provide a list of the anticipated major overseas expenditures for FY 85 and FY 86.

Answer: Our anticipated overseas expenditures for FY 85 are $10,299,000; for FY 86 they are $10,216,000.

REPAIRS

Question: What major repairs do you anticipate in FY 86?

Answer: The following major repair projects are programmed in FY 86:

Suresnes Cemetery	Relevel headstone beams	$30,000
Montfaucon Monument	Clean stone and treat it with a fungicide and preservative	70,500
Chateau-Thierry Monument	Repair of terrace, Phase II	60,000
Meuse-Argonne Cemetery	Clean stone of memorial and treat it with a fungicide and preservative	30,000
Epinal Cemetery	Repair memorial terrace	33,000
Cambridge Cemetery	Relevel sidewalks and curbing	40,000
Pointe du Hoc Monument	Repair parking lot	25,000
Suresnes Cemetery	Repair memorial terrace	45,000
Honolulu Memorial	Clean and repoint	20,000

MEETINGS AND TRAVEL OF COMMISSION MEMBERS

Question: This year you are requesting $11,500 for meetings and travel by the Commission members and $8,900 for the inspection of field operations by the Secretary and the Washington, DC staff. These amounts are between 10% and 25% below your FY 85 levels. Would you please provide a list of your prior expenditures or estimates in each of these categories for FY 80 through FY 85?

	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85
Commissioners	2,600	...	9,100	19,700	16,338	16,000
Secretary & Staff	7,700	10,600	10,800	10,000	6,777	10,200

EQUIPMENT

Question: You have requested $491,000 to replace uneconomically repairable and wornout vehicles and equipment and to procure equipment presently not on hand. Would you please provide for the record a list indicating the number and types of vehicles and equipment that you expect to replace in FY 86?

Answer: Programmed vehicle and equipment procurement for FY 86 is as follows:

Calculator	5	Cart	2
Camera, polaroid	1	Charger, battery	4
Typewriter	6	Cleaner, vacuum	1
Truck, light	9	Compressor	6
Auger	1	Drill, portable	9
Mower, various	49	Drill, press	5
Aerifier, lawn	5	Dumper, power	2
Blower, leaf	13	Generator, portable	14
Brush & weed cutter	2	Grinder, bench	6
Edger, lawn	4	Lapping machine, mower blade	2
Elevator - conveyor	2	Mixer, concrete	4
Grinder, compost	9	Polisher, floor	3
Saw, power	6	Pump, water, portable	5
Scarifier - Cultivator	6	Sander	9
Sod cutter	3	Saw, circular, portable	4
Sprayer, various	9	Sharpener, mower blade	1
Spreader	8	Snow thrower	2
Sweeper	14	Sprayer, high pressure	4
Tractor	3	Welder, electric	2
Trailer	4	Welder, gas	2
Trimmer	15	Hammer, electric	2
Truck loader, vacuum	2	Appliance, misc	13
Weed eater	4	Air conditioner	3
Wood chopper	1		

DISTRIBUTION OF REQUESTED BUDGET BY INSTALLATION

Question: You have previously provided a distribution of the budget by installation going back to FY 80. Would you please provide, for the record, a table of the annual budgets for ABMC installations for FY 84 through FY 86?

Answer: The annual budgets for the years requested are as follows:

Cemetery/Office	Fiscal 1984	Fiscal 1985	Fiscal 1986
Washington Office	862,381	727,000	738,000
Paris Office	1,239,772	1,232,842	1,278,455

Aisne-Marne	326,768	599,720	399,055
Ardennes	455,714	454,575	490,399
Brittany	286,244	311,139	333,192
Brookwood	74,774	65,461	70,906
Cambridge	247,690	233,367	282,835
Epinal	277,165	280,109	342,329
Flanders Field	146,118	167,412	160,043
Henri-Chapelle	418,005	548,196	411,909
Lorraine	551,305	663,548	571,025
Luxembourg	257,266	291,897	267,375
Meuse-Argonne	536,989	609,512	776,568
Netherlands	529,276	562,699	550,224
Normandy	730,395	634,507	632,795
Oise-Aisne	343,161	327,466	310,944
Rhone	166,799	256,798	201,029
Somme	230,269	211,956	231,855
St. Mihiel	364,708	285,273	264,149
Suresnes	190,961	219,523	303,913
Rome Office	313,385	335,831	302,976
Florence	331,061	418,367	434,772
North Africa	294,519	287,557	220,668
Sicily-Rome	387,861	444,245	472,584
Asian Office/Manila	564,498	610,000	611,000
Latin Office/Corozal	287,109	237,000	245,000
Mexico City	47,774	49,000	50,000
TOTAL	10,461,967	11,065,000	10,954,000

Questions Submitted by Senator Leahy

Question: Your budget is $111,000 below the 1985 level. How have you achieved this reduction in spending?

Answer: The FY 86 budget ceiling for this agency established by the Office of Management and Budget is $10,954,000. As the Commission's request was for $11,445,000, it was necessary for us to defer $87,000 in maintenance and repair projects and $404,000 in capital improvement projects, the largest of which was $250,000 to design a Korean War Memorial.

Question: Please describe all activities undertaken, directly or indirectly, or facilities owned, leased or otherwise controlled in the State of Vermont.

Answer: Almost all of this Commission's installations are on foreign soil; none is in the State of Vermont. As a consequence, no activities are undertaken in the State of Vermont.

DEPARTMENT OF DEFENSE—CIVIL

DEPARTMENT OF THE ARMY

ARMY CEMETERIAL EXPENSES

STATEMENT OF COL. ANTHONY DeBERARDINO, DIRECTOR, CASUALTY AND MEMORIAL AFFAIRS OPERATIONS CENTER, U.S. ARMY MILITARY PERSONNEL CENTER

ACCOMPANIED BY:

- RAYMOND J. COSTANZO, SUPERINTENDENT, ARLINGTON NATIONAL CEMETERY
- RAYMOND J. PETTIS, DIRECTOR, RESOURCE MANAGEMENT, OFFICE OF THE ADJUTANT GENERAL
- JULIUS L. SMITH, PROJECT ENGINEER, ARLINGTON AND SOLDIERS' HOME NATIONAL CEMETERIES
- LT. COL. ROGER L. BALDWIN, MILITARY ASSISTANT TO THE ASSISTANT SECRETARY OF ARMY FOR CIVIL WORKS

Senator GARN. Next will be Army Cemeterial Expenses.

Colonel DeBerardino, it is a pleasure to welcome you and Lieutenant Colonel Baldwin here for the first time. Mr. Costanzo and his associates have been here before. You have the responsibility for the operation of Arlington National Cemetery and the Soldiers' and Airmen's Home National Cemetery. These facilities contain the remains of over 208,000 persons and comprise approximately 628 acres.

I was pleased this past year when you conducted the ceremony at the Tomb of the Unknown Soldier to honor the unknown American service personnel who gave their lives during the Vietnam conflict.

During fiscal year 1986, your budget assumes 3,940 burials and inurnments, cemetery personnel care for the maintenance of the shrubs, the Memorial Amphitheater, the Tomb of the Unknown Soldier, and various buildings and vehicles.

Your budget request for fiscal year 1986 is $14,778,000, which is an increase of $6,966,000 over your fiscal year 1985 appropriation.

PREPARED STATEMENT

We have received your prepared statement and it will be inserted at this point in the hearing record.

[The statement follows:]

STATEMENT OF COL. ANTHONY DeBERARDINO

Mr. Chairman, members of the committee, good morning. We appreciate the opportunity to appear today to discuss the Fiscal Year 1986 appropriation request for the support of Arlington and the Soldiers' and Airmen's Home National Cemeteries. I am representing the Acting Assistant Secretary of the Army (Civil Works). Lieutenant Colonel Baldwin of his office is with me today.

Arlington National Cemetery is this nation's most prestigious and principal shrine in honor of America's dead who have made a notable contribution to sustain our way of life. In addition to the thousands of funerals held there each year--accompanied by military honors--hundred of nonfuneral ceremonies honoring those whose remains are interred/inurned within the confines of this cemetery are conducted as well. Thousands of citizens as well as American and foreign dignitaries visit Arlington to participate in these solemn events. During 1984, Arlington National Cemetery played host to over 3 million visitors, including nine Foreign Heads of State. Also in FY 1984 there were a total of 3,713 interments and inurnments and following many years of careful planning and preparation, interment of the Vietnam Unknown Soldier took place on May 28, 1984.

In the interest of economy, funding increases have been kept to an absolute minimum. Except for construction, requests for FY 1986 are at or below the FY 1985 level.

For Fiscal Year 1986, we are requesting $14,778,000. Compared to the FY 1985 request, this is an increase of $6,966,000. Included in this request is $8,358,000 for construction of a permanent visitor's center. Funds to construct an associated parking facility will be included in our FY 1987 request.

In Fiscal Year 1985 appropriation, the Congress approved funds to design the visitor's center and parking facility. A contract for the final design has been awarded and is scheduled for delivery late in 1985. Construction of the center and the parking facility are projected to begin in 1986 and 1987, respectively. We plan to dedicate the center and open it to the public in early 1988. The visitor's center is one of the major projects in the Congressionally approved Master Plan for Arlington National Cemetery construction. The permanent visitor's center will replace the existing 15-year old temporary center that is inadequate to provide for the needs of visitors. Also the present location and design of the temporary facility is such that the flow of visitors and vehicular traffic often interferes with funerals and degrades their solemnity. The building of the permanent visitor's center and parking facility will eliminate this problem and allow future use of the 15 acres of land for burial now occupied by the temporary facilities.

Approval of our FY 1986 request will permit us to construct the much needed visitor's center and to continue the high standards of maintenance expected at these cemeteries. We want to thank the committee for its steadfast support in the past for the visitor's center. We look forward to your participation in the dedication of the facility when it is completed.

Mr. Chairman, this concludes my remarks and now we will be pleased to respond to questions from the committee.

STATEMENT SUMMARIZED

Senator GARN. Please proceed with your opening statement.

Colonel DEBERARDINO. Mr. Chairman, members, good morning.

We appreciate the opportunity to appear today to discuss the fiscal year 1986 appropriation request for the support of Arlington and Soldiers' and Airmen's Home National Cemeteries.

Arlington National Cemetery is the Nation's most prestigious shrine in honor of Americans who died to protect our way of life.

Thousands of interments are held there each year. There were 2,354 burials and 1,359 inurnments in 1984. There were over 3 million visitors in 1984, including 9 foreign heads of state. The Vietnam Unknown was laid to rest there on May 30, 1984.

Requests for funding increases have been kept to a minimum; except for construction, our request for fiscal year 1986 is less than our fiscal year 1985 level. In fiscal year 1985, Congress approved final design funds for the visitors center and parking facility.

Construction should begin in 1985 and 1986, respectively. The visitors center should be opened to the public in 1988. It is a major project in the master plan for construction at Arlington National Cemetery. The existing 15-year-old temporary visitors center is inadequate and shoddy in appearance. Additionally, its location interferes with funerals and detracts from the solemnity of the cemetery. Construction of the new visitors center to be errected on adjacent National Park Service land will free 15 acres of Arlington National Cemetery land for additional burial sites.

Funding of the visitors center is the key for fiscal year 1986. This project is long overdue, and an important investment to make for the ideals it represents. The committee's steadfast support is greatly appreciated.

Mr. Chairman, we are ready to respond to your questions.

Senator GARN. Thank you, colonel.

INITIAL BUDGET REQUEST TO OMB

I would point out in my opening statement, I talked about the increase and that is for construction, and in other areas you have had reductions. How does your fiscal year 1986 budget request compare to your request to OMB?

Mr. PETTIS. Our original request was $15,253,000, which is a reduction of $475,000.

Senator GARN. In what areas were they made?

Mr. PETTIS. Primarily civilian pay and maintenance of facilities.

Senator GARN. What effect will these have on the operation and maintenance of your facilities?

Mr. COSTANZO. Reduced standards are going to be most noticeable in headstone alignment, tree maintenance, and road repairs.

VISITOR CENTER AND PARKING FACILITY

Senator GARN. The Arlington National Cemetery master plan approved by Congress in 1967 provided for a permanent visitor center and parking facilities. A temporary visitor center and parking lot were constructed in 1969 and are still in use.

The original underground permanent visitors center and two-tiered parking facility was estimated in 1967 to cost $36 million. This was considered too costly and the second concept for an aboveground visitors center and parking facility was developed. Last year, you estimated that the construction of the visitors center would cost $8,358,000.

Since then, you have spent $400,000 for the final design of this complex. You are still requesting $8,358,000 for construction at Arlington National Cemetery.

What will you be constructing this year besides the permanent visitors center?

Mr. SMITH. Senator, the visitors center is the only construction project in fiscal year 1986.

Senator GARN. In fiscal year 1984, you are estimating the construction costs for the visitors center parking facility would cost $9,082,000. What is your current estimate for the cost of the parking facility?

Mr. SMITH. Current estimate for construction for the parking facility in fiscal year 1987 is still $9,082,000.

Senator GARN. Could you describe for the subcommittee the size of the facility?

Mr. SMITH. The facility will have parking spaces for 580 cars and 40 buses and will cover 332,000 square feet.

Senator GARN. What is the construction schedule for both the visitors center and parking facility?

Mr. SMITH. Construction for the visitors center is projected to begin in late calendar year 1985 and completed in 1987. The parking facility construction is projected to start late in calendar year 1986 with completion in about 1 year.

FIVE PERCENT CIVILIAN PAY REDUCTION

Senator GARN. Object classification 11.9 (personnel compensation) is reduced $75,000 in fiscal year 1986 from the previous year's level. The fiscal year 1986 reduction appears to be less than the 5-percent reduction that I have noticed in most agencies' budget justification.

Would you explain the reason for that difference?

Mr. PETTIS. The 5-percent reduction was taken against our original pay request for 1986, not the pay costs of the previous year. Also the military pay included in the estimate was not subjected to the 5-percent reduction.

MILITARY PERSONNEL SUPPORT AND COSTS

Senator GARN. Are the two officers assigned to Army Cemeterial Expenses both devoting more than half of their time to Arlington Cemeterian functions?

Colonel DEBERARDINO. No, sir, we do not.

Senator GARN. How much did this appropriation reimburse the military personnal appropriation for the services of the two officers in fiscal year 1984?

Colonel DEBERARDINO. This year the appropriated dollars that are reimbursed by the Army to the Cemeterial Fund is $84,000. In fiscal year 1985, it would be $117,000.

Senator GARN. Senator Proxmire?

Senator PROXMIRE. Colonel DeBerardino and Colonel Baldwin, I understand that you gentlemen supervise two cemeteries. Why is it necessary to have two full-time officers supervise two cemeteries? In the past, I understand, you had 84 cemeteries to supervise; is that correct?

Colonel DEBERARDINO. Yes, sir.

Senator PROXMIRE. Now you have two?

Colonel DEBERARDINO. Yes, sir.

Senator PROXMIRE. Does it take your full time to do it?

Colonel DEBERARDINO. No, it does not. I am one of those officers reimbursed through the Cemeterial account. I never quite understood why except that I believe it is a carryover from the old days.

The other officer is not here. He is the Chief of the Memorial Affairs part of our operation. Again, I believe that is a carryover when the Army ran all the national cemeteries. But I would suggest that I didn't do anything about it or even initiate the issue because there are many people on the Army's payroll not reimbursed by the Cemeterial account. For example, the soldiers who guard the Unknown around the clock, the soldiers who are involved in the ceremonial burial honors, whenever there is a death.

Colonel Baldwin, who is an Assistant to the Assistant Secretary of the Army for Civil Works at the policy level of the Army, is not reimbursed. Traditionally, I have a small contingent in Hawaii called the Central Identification Laboratory who were the very people involved, for example, in making the final process of attempting to identify the Unknown to the point where we had come to the conclusion that this is indeed an unknown, unaccounted for American service member. So I believe that there are a host of people in support of the cemetery who, while on the surface there is really no solid rationale for those two—I gave you wrong years for those amounts, which I will correct for the record. This year we are paying $84,000 and in fiscal year 1985, it will be $117,000.

Senator PROXMIRE. Colonel, it seems to me if we are going to run an orderly system where we know what we are spending and know whether it is justifiable or not in this year where we have to cut everything, we ought to make sure the particular agency that benefits from the services provided is the one that is charged with it. So if we do reduce a budget, we make a reduction in a direct and knowing way.

Colonel DEBERARDINO. Frankly, I am glad the question was asked because I believe the money is going to come out of the same pot ultimately, but what you suggest is very valid. It seems to me that we may be double-dipping the Government fund in that the Army has to account for me and the lieutenant colonel who is on this authorization document and not exceed the manpower ceiling or the pay involved to pay the authorization, and as long as we are on the authorization document, the Army is presuming it has to pay for us anyway. So whether they pay for us directly or through the Cemeterial account, comes from the same source.

Senator PROXMIRE. It may come from the same source. It seems to me it would be much more orderly, we would know exactly whether or not the particular service we provide is worth the expenditure, at least we know what the expenditure was and would be in the position to make an intelligent decision on it.

How much of your time do you spend supervising these two cemeteries?

Colonel DEBERARDINO. That would be very difficult to specify. It is in peaks and valleys. Some days I spend a whole day on nothing but Arlington National Cemetery and then I can go days without even being involved. I would guess it would be something like 25 percent, maybe 30 percent. Now, if I were to include all of the other military support, if you were to say, do we get a colonel's worth of salary and a lieutenant colonel's worth of salary in the aggregate amount of about $100,000 for the kind of support the Army pays for, I would say probably yes, and probably a lot more.

MERGER WITH THE VETERANS ADMINISTRATION

Senator PROXMIRE. What would be the savings in administrative overhead if the cemeteries in this account were merged into the Veterans Administration?

Colonel DEBERARDINO. I'm not sure I understood the question?

Senator PROXMIRE. If we merged the cemeteries' management into the Veterans Administration completely——

Mr. PETTIS. There is no cost to determine that——

Senator PROXMIRE. Why wouldn't there be a savings?

Mr. PETTIS. There would be a savings but I couldn't set the exact amount at this time.

Senator PROXMIRE. There would be a savings.

Mr. PETTIS. There would have to be.

Senator PROXMIRE. Would you provide that for the record?

Mr. PETTIS. We will attempt to.

Senator PROXMIRE. Do the best you can. I realize it is difficult.

Senator GARN. May I throw something in there. I don't know that you can necessarily assume there would be a savings. The Veterans Administration, with its giant size, could just swallow this little operation up and double the cost. I am very serious about that. I don't know how we could assume that merging them into VA, with all the problems that we have had there with their massive budgets, would accomplish that.

Senator PROXMIRE. It might work the other way. You might take it on with no increase.

Colonel DEBERARDINO. I would like to go on record as saying the Army—and the Army is the executive agent for all the services—would be opposed to that for a couple of reasons. One, this is indeed the most prominent shrine to American servicemen, the preeminence of which should be to those serving on active duty at the time. Now, it is not to say that we don't want to treat retirees and veterans with the kind of solemnity that they, too, have earned during their service, but there are very many veterans out there who have served a month, 2 months, 2 years, and to turn this over to the Veterans Administration with the large number of veterans, with the host of activities the Veterans Administration is involved with, Arlington National Cemetery would be swallowed up in all of that, and your national shrine and the preeminence of this big attraction for visitors, second only to the Smithsonian in the Washington area, would lose that aura.

Senator PROXMIRE. You may or may not be right. There should be no way in which the magnificent legacy the Arlington National Cemetery represents would be obscured. It will always be one of the proudest elements in our Nation and I think that we should in no way demean it. It seems to me this is a matter of seeing the administration of it is done in an orderly and effficient and low-cost way. I don't think that in any way would call into question the reverence of the great people who lie there.

Colonel BALDWIN. Sir, with your permission, I would propose that we attempt to, for the record, give you the analysis that you desire, but perhaps a more deliberate analysis should be conducted that may take more time than we would have available to put together a response for the record. As Colonel DeBerardino has suggested, a very, important aspect associated with that would be the advantages and disadvantages of doing something like that.

Senator PROXMIRE. If not within the next day or two, in the next few weeks, if you could provide something, it would be very helpful.

Senator GARN. Rather than doing it for the record, simply have it in a separate report to the subcommittee.

Mr. COSTANZO. May I add that in 1973 when the national cemeteries were transferred to the Veterans Administration, a very in-depth study covering that very subject was made, a study between DOD and the VA. They submitted a report to the Congress in 1974 indicating that both agencies, after looking at all the ramifications, concluded it would be in the best interest of the Government to leave Arlington under the control of the Army.

Senator PROXMIRE. That may be right. That was 11 years ago. I am not asking for a big detailed report, but if you can give us some of your judgments now, having looked back on 11 years of experience with this.

Senator GARN. I certainly would agree with Senator Proxmire. I don't think you are going to change the respect or nature of Arlington Cemetery, regardless of who runs it. The question is, Is it run as efficiently as possible. Maybe I am biased since during the 4 years I have been chairman of this subcommittee I have had my fights with the VA over their construction projects and priorities for VA hospitals. I think they could screw up Arlington Cemetery pretty quickly. [Laughter.]

You can tell I have a bias but, nevertheless, I will read your report.

Thank you very much.

SUBMITTED QUESTIONS

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR GARN

ROADWAY MAINTENANCE

Question: You have been spending about $400,000 per year to repair the roadways in the cemetery. No funds were identified in your FY 86 budget for this purpose.

Are you going to discontinue the repair of these cemetery roads?

Answer: No. We will not discontinue repairs to the cemetery roads, we will request funds in future budgets to continue the road repair reconstruction program.

MAINTENANCE COSTS

Question: Your budget justification indicates the elimination of five maintenance activities that represented $79,000 in the FY 85 budget. These maintenance areas include buildings, roads, walks and walls. Last year, you reduced this area by $26,000 from the previous year.

While you have increased your ground maintenance outside contract by $47,000; the activities covered by the contract typically included cutting the grass and picking up of paper.

What will be the short term and long term impacts of this continued reduction in maintenance?

Answer: If we continue to defer such high visibility maintenance items as headstone alignment, tree maintenance, and repairs to roads and buildings beyond the next two years, there will probably be a strong adverse public reaction to the deteriorated appearance of this National Shrine, and then the cost of taking the required corrective action will have escalated considerably.

OTHER SERVICES -- GROUND MAINTENANCE

Question: I noticed that once again you are not requesting any funds this year for weed eradication. Previous to FY 85, you have requested $50,000 a year for this purpose.

Could you once again share your secrets for long term grass maintenance without weed eradication?

Answer: Our turf maintenance and weed eradication programs are continuing and on-going. We have not discontinued this highly essential maintenance function. During fiscal years 1983 and 1984, we had this program performed by contract because the situation at that time was out of hand and beyond our in-house control. We now have this problem under control and continue the required turf maintenance by in-house personnel.

WAREHOUSE

Question: During the FY 83 hearings, you indicated the new warehouse facility which you intended to construct in FY 82 and FY 83 had been deferred by OMB.

What is the current status of the warehouse facility design and construction?

Answer: Under our present plans, funds for the warehouse design will be requested for FY 1988 and construction funds will be requested in FY 1989.

VEHICLE REPLACEMENT

Question: During FY 86, you intend to replace three motor vehicles -- all 3/4 ton carryalls.

What is the age and total mileage of these vehicles?

What do you estimate will be the total replacement cost for these vehicles?

What purposes do you intend to use these vehicles for?

Answer: These vehicles are all seven years old and have about 50,000 miles each.

The estimated total replacement cost is $40,500.

These vehicles will be used to transport personnel and equipment to various job sites throughout the 600 acre cemetery.

COLUMBARIUM STATUS

Question: Your budget justification indicates a projected 1986 closing date for the columbarium at Arlington National Cemetery.

I know that this is not the complete picture.

Would you please elaborate on the columbarium status for the record.

Answer: The overall plan for the columbarium calls for the construction of a facility with 50,000 niches to be built in 5,000 niche increments as needed. In 1980, the first 5,000 niche increment was opened and is expected to be completely utilized by early 1986. The second 5,000 niche increment is currently under construction and is expected to be opened in early 1986.

STATUS OF CEMETERIES

Question: In your budget justification you indicate the remaining capacities for the Arlington National Cemetery and the Soldiers' and Airmen's Home National Cemetery.

Would you please provide this information for the record?

STATUS OF ARLINGTON AND SOLDIERS' AND AIRMEN'S HOME NATIONAL CEMETERIES--SEPTEMBER 30, 1984

	Arlington National Cemetery	Soldiers' and Airmen's Home National Cemetery
Gravesites available	51,308	493
Gravesites used	167,347	13,468
Gravesites reserved	13,302	25
Projected closing date	2021	2003

STATUS OF COLUMBARIUM AT ARLINGTON NATIONAL CEMETERY

Niches available	1,359
Niches used	3,667
Projected closing date	1986

QUESTION SUBMITTED BY SENATOR LEAHY

ACTIVITIES CONTROLLED IN THE STATE OF VERMONT

Question: Please describe all activities undertaken, directly or indirectly, or facilities owned, leased or otherwise controlled in the State of Vermont by this agency.

Answer: None of the activities of this agency are controlled in the State of Vermont.

GENERAL SERVICES ADMINISTRATION

CONSUMER INFORMATION CENTER

STATEMENT OF MS. TERESA NASIF, DIRECTOR, CONSUMER INFORMATION CENTER

ACCOMPANIED BY WILLIAM B. EARLY, JR., DIRECTOR OF BUDGET, GENERAL SERVICES ADMINISTRATION

Senator GARN. Next we have the Consumer Information Center. It is a pleasure to have you before us again. The Consumer Information Center [CIC] was established within the General Services Administration by executive order on October 26, 1970, with the mission of encouraging Federal departments and agencies to develop and publish practical, relevant consumer information and to increase public awareness of and access to this information.

The quarterly Consumer Information Catalog is the primary way that CIC promotes public awareness of Federal publications. To help offset the Federal Government's cost in providing this information, CIC is charging a user fee of $1 for two or more free publications in the catalog. This year you are requesting $1,249,000, which represents an increase of $100,000 over your current fiscal year 1985 level. Please proceed with your statement.

PREPARED STATEMENT

Ms. NASIF. Mr. Chairman, I would just like to read a summary of the statement and submit the entire statement for the record.

[The statement follows:]

STATEMENT OF TERESA N. NASIF

Mr. Chairman and members of the subcommittee, I want to thank you for the opportunity to be here today to discuss the fiscal year 1986 budget request for the Consumer Information Center [CIC].

The CIC assists Federal agencies in their efforts to release consumer information they wish to bring to the public's attention. The CIC promotes public awareness of Federal consumer information through publication of the quarterly Consumer Information Catalog and through various media services. In addition, the CIC coordinates distribution of Federal consumer publications from a centralized facility in Pueblo, CO.

During recent years, the CIC program has experienced several significant changes. Budget constraints have led agencies to carefully reexamine their publication programs and to reduce the number of publications being printed. Also, 2 years ago, we began to assess a fee of $1 on all orders for two or more free publications listed in the catalog.

The positive results of these changes have been an elimination of unnecessary Federal publications and a concentration of resources on streamlining and disseminating the most essential information. Also, the considerable funds generated from the user fees (more than $0.5 million to date) have been used to offset CIC program costs.

Nevertheless, a side effect of these events has been a decline in the number of publications distributed. At the same time, other forces have increased the need for a continuing source of reliable, unbiased consumer information. Revisions in Government programs, advances in technology, and new developments in health and safety areas reinforce the need for an educated and informed consumer in a deregulated marketplace. Therefore, the CIC must continue to seek creative solutions to accomplish its mandate.

Mr. Chairman, I believe that CIC has responded with innovation and enthusiasm to the challenges that we have faced in recent years. Here are just a few examples:

1. In fiscal year 1983, CIC in cooperation with the Government Printing Office [GPO] implemented the low-priced publication project. This program enables us to make selected publications available to the public at a cost of 50 cents each. We have had such a favorable response from the public, from agencies, and from the media, that GPO has requested that we increase the number of publications brought into the program. The spring 1985 catalog lists forty-three 50-cent publications.

2. In consultation with the staff of the appropriations subcommittees, user fee revenues have been judiciously tapped for selected marketing projects designed to effectively promote the catalog and Federal publications. During fiscal year 1984, citizens requested more than 1.3 million publications as a result of these efforts.

3. The CIC has actively sought out opportunities for joint publication efforts between Federal program offices and the private sector. We have found this to be a highly cost-effective way to develop and distribute needed information to the public. The spring 1985 Consumer Information Catalog lists 10 publications that are collaborative Government/industry efforts.

The changing environment in which the CIC program is now operating demands that we aggressively continue our efforts to make the public aware of existing Federal information. This is why we are requesting an additional $100,000 to fund production and distribution of public service announcements in fiscal year 1986. Public service advertising has proven to be a powerful and cost-effective means to accomplish the CIC mandate of providing public access to Federal consumer information.

In summary, during fiscal year 1986 we plan to continue devising new means to cost-effectively develop, promote, and distribute Federal consumer information to the public. We keenly recognize the need to be innovative and flexible in carrying out CIC responsibilities within a context of diminishing agency resources. At the same time, we shall continue to evaluate our ongoing products and services, as well as our special promotional efforts, to ensure that we provide maximum value to agencies and to the public.

Mr. Chairman, I am pleased to have provided this brief summary and I will be glad to respond to any questions.

SYNOPSIS OF STATEMENT

Ms. NASIF. Mr. Chairman and members of the subcommittee, during recent years, the Consumer Information Center program has experienced several significant changes. Budget constraints have led agencies to carefully reexamine their public information programs and reduce the number of publications being printed. Also, 2 years ago we began to assess a fee of $1 on all orders for two or more free publications listed in the Consumer Information Catalog. The positive results of these changes have been an elimination of unnecessary Federal publications and the concentration of resources on streamlining and disseminating the most essential information.

Also, the considerable funds generated from the user fees, more than $500,000 to date, has been used to offset CIC program costs. Nevertheless, the side effect of these events has been a decline in the number of publications distributed. At the same time, other forces have increased the need for a continuing source of reliable, unbiased consumer information. Revisions in Government programs, advances in technology, and new developments in health and safety areas reinforce the need for educated and informed consumers in a deregulated marketplace.

This means that the Consumer Information Center must continue to seek creative solutions to accomplish its mandate. I believe that we have responded with innovation and enthusiasm to the challenges that we have faced in recent years. Here are just two examples. First, in fiscal year 1983, the Consumer Information Center in cooperation with the Government Printing Office, implemented the low-priced publication project. This program enables us to make selected publications available to the public at a cost of 50 cents each. We have had such a favorable response from the public, from agencies, and from the media that GPO requested that we increase the number of publications brought into this program. The spring 1985 catalog lists forty-three 50-cent publications.

Another example is that in consultation with the staff of this appropriations subcommittee, user fee revenues have been judiciously tapped for selected marketing projects designed to effectively promote the catalog and Federal publications. During fiscal year 1984, citizens requested more than 1.3 million publications as a direct result of these efforts.

The changing environment in which the Consumer Information Center program is now operating demands that we aggressively continue our efforts to make the public aware of the existence of Federal information and this is why we are requesting an additional $100,000 to fund production and distribution of public service announcements in fiscal year 1986. Public service advertising has clearly proven to be a powerful and cost-effective means to accomplish our mandate of providing public access to Federal information.

In summary, during fiscal year 1986, we plan to continue devising new means to cost-effectively develop, promote, and distribute Federal consumer information to the public. We keenly recognize the need to be innovative and flexible in carrying out our responsibilities within a context of diminishing agency resources. At the same time we shall continue to evaluate our ongoing products and services as well as our special promotional efforts to ensure that we provide maximum value to the agencies and to the public.

Mr. Chairman, I am pleased to have provided this very brief summary, and will be glad to answer any questions you may have.

MAJOR CHANGES IN FISCAL YEAR 1986 BUDGET PROPOSAL

Senator GARN. Last year your fiscal year 1985 budget justification included an 89-percent reduction from the previous appropriation level. This committee supported the continuation of your functions with slightly reduced funding and the same staff of 20 people.

Would you please briefly explain any major changes that are contained in the fiscal year 1986 budget proposal?

Ms. NASIF. The 1986 budget proposal is based on a continuation of the program levels that were basically in the fiscal year 1985 budget as provided by this subcommittee. The two differences are that the other services area does contain a request for an increase of $100,000 to enable us to both produce and distribute public service announcements to television stations nationwide within fiscal year 1986.

The other major difference is that during fiscal year 1985, we were given authority to use $300,000 from the user fees that were collected from the public to offset our administrative expenses. In fiscal year 1986, we are requesting authority to use $382,000 from these user fees. The $82,000 difference consists of $72,000 due to inflation in various contracts that we let, and also a $10,000 amount for us to buy office automation equipment.

FISCAL YEAR 1985 PAY INCREASE

Senator GARN. You are not requesting any funds to meet pay increases in fiscal year 1985. How much will you have to absorb?

Ms. NASIF. Based on our present staffing, we will be absorbing about $17,000 in the salaries and benefits object classes and we are able to do it because during the past year, we have filled three professional positions at levels lower than the grade at which they were vacated.

USER FEE COLLECTIONS

Senator GARN. The $1 user fee on catalog orders for more than one free publication was initiated in fiscal year 1983. The establishment of the fee came after a 10-month study conducted at the request of this subcommittee. The final report of the study indicated that the $1 user fee was, indeed, a feasible and desirable method for partially recovering the Government's cost of this service.

How does what you realized in user fee collections in fiscal year 1984 compare with your expectations for that year?

Ms. NASIF. We had projected $300,000 collected in user fees in fiscal year 1984. We actually realized $282,000.

Senator GARN. Are there any general assumptions regarding user fees that you have made for future years?

Ms. NASIF. We project that in fiscal year 1985, we will realize the $300,000 level, and that in fiscal year 1986, it will increase to $325,000. Our business is better. There are more orders being received in Pueblo with the dollar and we have observed that our customers are more willing to include the dollar with their orders. The percentage of customers including money is increasing.

Senator GARN. Has the user fee been a deterrent to people using it? Has it had much impact on the distribution?

Ms. NASIF. Yes, it has. The orders initially went down about 40 percent but they are starting to come back up again. Initially, our customers didn't quite believe that we were serious about the dollar. Even though the instructions clearly asked for people to include the dollar, we were receiving orders without the money. We would write back and say, "I'm sorry, we can give you one free publication, but if you would like for us to fill the rest of the order, you have to send us the dollar." As a result, 95 percent of all the orders that should contain the dollar actually do.

Senator GARN. Senator Proxmire.

USER FEE REVENUE

Senator PROXMIRE. How much did you say the user fee covered? How much did it bring in?

Ms. NASIF. $282,000.

Senator PROXMIRE. You have a budget of $1,149,000. Why don't you make it $5 and cover your whole budget?

Ms. NASIF. Well, we did a 10-month study to determine at what level the orders would drop off completely so we would have no income——

Senator PROXMIRE. Come on.

Ms. NASIF. If we were to ask for $5, there would probably be a sharp decrease in orders.

Senator PROXMIRE. You would have to do it gradually and easily.

Ms. NASIF. Yes; I don't know if we can ask for $5. We are experiencing a tough enough time with a $1 user fee.

Senator PROXMIRE. The people who benefit from that, why shouldn't they pay for it? It is a good sound principle——

Ms. NASIF. It is a good, sound principle. The percentage of free books in the catalog has decreased. At one time, 70 percent of the titles we offered were free, and that percentage is at about 45 percent right now. In other words, consumers must pay for more than half of the books we offer. If they choose among the 45 percent or so that are free, they have to include that dollar user fee to help cover the program expenses.

Senator PROXMIRE. Think about that. I don't mean to load everybody who comes up before the committee with a report they have to make. If for the record you could give at least a little more time thinking about how this might be phased in over a period of time because the purpose of a user fee usually is, of course, to relieve the taxpayer and to say that those who benefit from it should pay for it. If nobody wants to pay for it, it can't be worth very much.

Ms. NASIF. During the last fiscal year budget proposal, we did come in front of this committee and suggested that the user fee should be $2 rather than $1. After an examination of the information that we had, it was the decision of this committee that it should remain at $1, primarily because our distribution level had fallen 40 percent and it was felt that we needed a period of stability.

Senator PROXMIRE. When I said $5, I didn't mean that you would put the $5 in next year. Maybe go up to a dollar and a quarter or a dollar and a half. We would gradually move into an area where you could cover it.

MERGING CIC AND USOCA

Why not merge your operation into Ms. Knauer's operation? You do very much the same kind of things. Were you here when she testified?

Ms. NASIF. Yes, I was.

Senator PROXMIRE. That is a consumer affairs operation. They are promoting consumer interest. They are also assisting in getting publications out to the consumer to make them more aware of their opportunities, so forth. Isn't there some duplication here?

Ms. NASIF. There is no duplication. They provide national leadership on a variety of national issues while we are strictly focused on publications and their development, promotion, and distribution from the various Federal agencies. Her office, among more than 30 other different Federal agencies, uses our service to get their booklets out to the public. We are more specifically honed into consumer booklets, whereas her office has a much broader overview of consumer issues.

Senator PROXMIRE. Has anybody in OMB ever suggested you might merge?

Ms. NASIF. No, they have not.

Senator PROXMIRE. You don't think it is a very good idea?

Ms. NASIF. Well, I think we both do a very good job independently.

Senator PROXMIRE. I am sure you do a good job. I am always looking for ways in which you can save overhead and duplication. At any rate, thank you.

Thank you, Mr. Chairman.

Senator GARN. Thank you very much, Ms. Nasif. We appreciate you being here. We will insert your budget justification for the record at this point.

[The justification follows:]

CONSUMER INFORMATION CENTER FUND
JUSTIFICATION FOR APPROPRIATED FUNDS

Summary Reconciliation of 1986 Estimate to Comparable Amounts for 1985

1984	Appropriation	$1,349,000
	Decrease	
	Functional Transfer for Training Initiative	-1,300
1984	Adjusted Total	$1,347,700
	Decrease	
	Administrative Expenses Not Covered by User Fees	-198,700
1985	Total	$1,149,000
	Increase	
	Funding for Comprehensive Public Service Campaign	+100,000
1986	Total	$1,249,000

1985 Appropriation	$1,149,000
Change	+100,000
1986 Estimate	$1,249,000

GENERAL STATEMENT

The Consumer Information Center (CIC) was established in 1970 to: (1) help Federal departments and agencies release consumer information they wish to bring to the public's attention and (2) assure public awareness of and access to this information. To carry out these mandates, the CIC has an agency liaison program to identify and assist in the development of Federal consumer information; it publishes the Consumer Information Catalog; it conducts a media and marketing program to promote public awareness of the consumer information that is available; and it contracts with the GPO order processing facility in Pueblo, Colorado in order to distribute the information.

Public Law 98-63 established a revolving fund for the CIC. Under this fund, CIC activities are financed from the following: Annual appropriations from the general funds of the Treasury, reimbursements from agencies for distribution of publications, user fees collected from the public, and any other income incident to CIC activities. All are available as authorized in appropriation acts without regard to fiscal year limitations.

APPROPRIATION LANGUAGE

For necessary expenses of the Consumer Information Center, including services authorized by 5 U.S.C. 3109, ($1,149,000,) $1,249,000, to be deposited into the Consumer Information Center Fund: Provided, that the appropriations, revenues and collections deposited into the fund shall be available for necessary expenses of Consumer Information Center activities in the aggregate amount of ($4,449,000.) $4,346,000. Administrative expenses of the Consumer Information Center in fiscal year (1985) 1986 shall not exceed ($1,449,000.) $1,631,000. Appropriations, revenues and collections accruing to this fund during fiscal year (1985) 1986 in excess of ($4,449,000) $4,346,000 shall remain in the fund and shall not be available for expenditure except as authorized in appropriation acts.

JUSTIFICATION

Current Activities

The CIC's primary function is to provide a centralized and efficient means for Federal agencies to get their message to the public. Changes in government programs, advances in technology, and new developments in health and safety areas all reinforce the need for an educated consumer in a deregulated marketplace. The following provides highlights of CIC accomplishments in its three major program areas: agency liaison, media and marketing, and distribution.

AGENCY LIAISON

The agency liaison program is the basis for all CIC activities. Every other program area revolves around this important function and depends upon its success.

Through the agency liaison process, CIC works closely with program and information staff members in more than thirty Federal agencies to ascertain their information dissemination needs and to devise strategies to meet those needs. CIC agency liaison officers provide such specific help as: identifying cooperative publishing opportunities to maximize agency resources, providing editorial review on new or revised publications, coordinating promotional strategies for priority agency programs, and providing evaluation assistance.

The FY 1984 agency liaison program was highlighted by CIC's active involvement in cooperative publication efforts between Federal agencies and the private sector. Examples include One Friendship at a Time: Your Guide to International Youth Exchange released jointly by the U.S. Information Agency and the Consortium for International Citizen Exchange; How to Buy a Telephone and How to Buy a Home Computer developed by the Electronic Industries Association and the U.S. Office of Consumer Affairs; A Consumer's Guide to Life Insurance developed by the American Council on Life Insurance in cooperation with the Extension Service of the U.S. Department of Agriculture; and How to Choose and Use a Lawyer jointly released by the American Bar Association and the U.S. Office of Consumer Affairs. The CIC actively seeks out opportunities for government/industry collaboration, and coordinates development, media promotion and distribution. The spring 1985 Consumer Information Catalog lists 10 publications that are the product of joint government/private sector efforts.

During FY 1984, CIC's agency liaison officers identified and obtained 52 publications for listing and distribution through the Consumer Information Catalog.

MEDIA AND MARKETING

CIC's media and marketing program transmits important Federal information to the public while at the same time promoting the availability of the Consumer Information Catalog and of specific Federal consumer publications. CIC uses radio, television, newspapers and magazines to inform citizens about topics as diverse as health care, financial planning, Federal research, and other Federal programs that are of vital importance. As a public service, the media donates air time and print space for this information at no cost to the government. With minimal resources, the CIC is thus able to reach millions of Americans with valuable information in a cost-effective manner. CIC places its message with the media in the following ways:

-Information releases: Upon request, CIC provides the print information service, New For Consumers (NFC), to wire services, magazines, and newspapers; and provides the script service, Federal Consumer Focus (FCF), to radio and television stations. These releases can generate tremendous public demand for specific publications. For example: FY 1984 mentions in Parade magazine alone have prompted more than 360,000 consumers to write to Pueblo for publications. NFC releases have resulted in mentions in magazines such as Family Circle, Good Housekeeping, U.S. News & World Report, Modern Maturity, and Changing Times. The releases also appear regularly in large daily as well as small weekly newspapers throughout the country. Associated Press and United Press International used the releases as the basis for numerous articles throughout FY 1984.

-Meetings with major print media: During FY 1984, CIC met with nearly 70 consumer writers and editors of major national magazines to brief them on the availability of the Catalog and of specific Federal publications that would be of particular interest to their readers. As a result of this direct marketing, CIC has succeeded in obtaining feature mentions in numerous magazines.

One notable example was the major article that appeared in the July 30, 1984 issue of Family Circle featuring 26 publications available from the CIC. As a result of this promotion, consumers requested nearly 390,000 publications.

-Public Service Materials: In addition to its ongoing program of information releases and briefings for the media, the CIC also develops special public service advertisements for television, radio and the print media to inform the public of the availability of the Catalog.

During FY 1984, CIC also produced in-house and distributed two sets of print public service ads to newspapers and major magazines nationwide.

Also in FY 1984, CIC awarded a contract for production of new television public service spots which will be reproduced, packaged and distributed in May. To date, more than 260,000 individuals have requested Catalogs primarily as a result of current special public service advertising materials.

Special Marketing Projects

The legislation that established the CIC Fund authorized the use of user fees in funding special projects in support of the CIC mission.

During FY 1984, user fees funded a cooperative project between the CIC, the Veterans Administration (VA), and the Treasury Department to make CIC publications available to veterans. An insert printed with user fee funds was placed in the September 1984 compensation, pension, and educational benefit checks going to approximately 4 million veterans. In addition to containing a program message from the VA, the insert offered several Federal publications and the Consumer Information Catalog. As a result of this promotion, veterans requested more than 530,000 publications.

CIC also utilized user fees to cover distribution costs of a special flyer inserted by IRS with supplementary tax information requested by citizens. The flyer promoted the availability of the Consumer Information Catalog and contained a convenient clip-out coupon for obtaining a copy. Nearly half a million taxpayers requested a Catalog as a result of this promotion.

DISTRIBUTION

The CIC distribution program involves the publishing and distribution of the quarterly Consumer Information Catalog. The distribution program also directs the order fulfillment contracted out to the U.S. Government Printing Office (GPO) facility in Pueblo, Colorado. FY 1984 highlights of the CIC distribution program are as follows:

The Consumer Information Catalog is a quarterly listing of free and moderately priced Federal consumer publications. It is distributed through a variety of channels including: Members of Congress; elementary through graduate school educators; libraries; local and national consumer organizations; non-profit organizations such as credit unions, community groups, professional associations, service organizations and labor unions; Federal facilities with heavy visitor traffic; and in response to individual requests generated through the media. During FY 1984, approximately 20.5 million Catalogs were distributed and the average number of publications listed per quarterly edition of the Catalog was 218. The percentage of free titles averaged 45 percent.

During FY 1984, CIC continued the low-priced publication program in cooperation with GPO and participating Federal agencies. This program, which was started as a pilot effort in FY 1983, makes selected publications available to the public at a cost of 50¢ each. Agencies pay the printing costs thereby enabling GPO to lower the sales price. CIC's role is to identify the publications, obtain sufficient stock, and be the exclusive sales agent. Public, agency and media response has been so favorable that GPO has agreed to expand and continue the 50¢ program. The spring 1985 Catalog lists 43 50¢ publications.

A major objective of the CIC has been to maximize the effective use of the Catalog. In support of this objective, CIC has tested its distribution outlets for the Catalog and is now in the process of evaluating and realigning the quantities allocated to each group. CIC also contracted with a commercial catalog design firm to improve the Consumer Information Catalog's layout and design, including its readability and the clarity of the ordering instructions. Many of the recommendations were incorporated into the spring 1985 edition. During FY 1984, consumers requested nearly 6 million free and sales publications from CIC. Distribution of free publications generated $282,000 in user fee revenue; distribution of GPO sales documents generated revenue to GPO of more than $1.3 million.

PLANS FOR FY 1986

The requested budget authority of $1,240,000 for FY 1986 includes an increase of $100,000 to enable CIC to produce and distribute public service announcements to television stations nationwide during FY 1986. Public service advertising is essential to accomplishing the CIC mandate of providing public access to Federal consumer information. And, it has proven highly cost-effective. The last set of television public service announcements produced and distributed at a cost of $155,000 received approximately 4 million dollars of free air time donated to the government. Also, increased orders for publications will generate increased user fees from the public. These fees are becoming essential to the ongoing operation of CIC since they are used to offset CIC administrative expenses as well as to fund special projects that enhance the CIC program.

The expenditure of tax dollars for the Consumer Information Center requires the maintenance of evaluation methods for measuring the effectiveness of all of the programs described above. In FY 1986, the CIC will continue to evaluate use of its products and services, and to comprehensively monitor the distribution of publications to evaluate the impact of its promotional efforts. These measurement activities along with close interaction with national organizations that provide a multiplier effect for Federal consumer information will enable the CIC to help agencies accurately and cost-effectively target their information to the public. In summary, the CIC's primary goal will be to continue refining and improving the services offered to the public.

CONSUMER INFORMATION CENTER FUND
ADMIN. EXPENSES

POSITIONS BY GRADE AND AVERAGE EMPLOYMENT

	Actual, 1984			Program, 1985			Request, 1986		
Grade	C.O.	Field	Total	C.O.	Field	Total	C.O.	Field	Total
GS/GM-15	1	-	1	1	-	1	1	-	1
14	2	-	2	2	-	2	2	-	2
13	4	-	4	4	-	4	4	-	4
12	2	-	2	2	-	2	2	-	2
11	2	-	2	2	-	2	4	-	4
9	-	-	-	2	-	2	1	-	1
7	3	-	3	2	-	2	3	-	3
6	2	-	2	2	-	2	2	-	2
5	3	-	3	2	-	2	-	-	-
Permanent Positions	19	-	19	19	-	19	19	-	19
Avg. Empl: Permanent	17	-	17	19	-	19	19	-	19
Other	1	-	1	1	-	1	1	-	1
TOTAL	18	-	18	20	-	20	20	-	20

CLASSIFICATION BY OBJECTS

	Actual, 1984	Program, 1985	Request, 1986
Personnel compensation: Central office	$ 506,013	$ 629,000	$ 629,000
Field	-	-	-
11 Total personnel compensation	$ 506,013	$ 629,000	$ 629,000
Other Objects			
12 Personnel benefits	62,527	65,000	75,000
13 Benefits for former personnel	-	-	-
21 Travel	12,192	18,000	19,000
Travel (motor pool)	153	1,000	-
22 Transportation of things	42,915	42,000	42,000
23 Rents and utility services	3,040	6,000	6,000
Payment to Federal Buildings Fund	36,592	80,000	80,000
Communication services	55,171	60,000	60,000
24 Printing and reproduction	489,023	376,000	486,000
25 Other services	140,544	105,000	220,000
26 Supplies and materials	3,122	4,000	4,000
31 Equipment	16,206	-	10,000
32 Lands and structures	-	-	-
Total Other Objects	$ 860,485	$ 757,000	$ 1,002,000
Total Obligations	$ 1,366,498	$ 1,386,000	$ 1,631,000
Position Data			
Average salary, GS positions	$ 29,801	$ 31,623	$ 33,015
Average grade, GS positions	9.95	10.26	10.79

CONSUMER INFORMATION CENTER FUND

POSITIONS BY GRADE AND AVERAGE EMPLOYMENT DISTRIBUTION PROGRAM

	Actual, 1984			Program, 1985			Request, 1986		
Grade	C.O.	Field	Total	C.O.	Field	Total	C.O.	Field	Total
Permanent Positions									
Avg. Empl: Permanent									
Other									
TOTAL									

CLASSIFICATION BY OBJECTS

	Actual, 1984	Program, 1985	Request, 1986
Personnel compensation: Central office			
Field			
11 Total personnel compensation			
Other Objects			
12 Personnel benefits			
13 Benefits for former personnel			
21 Travel			
Travel (motor pool)			
22 Transportation of things			
23 Rents and utility services			
Payment to Federal Buildings Fund			
Communication services			
24 Printing and reproduction	$ 20,147	$ -	$ -
25 Other services	1,801,171	2,715,000	2,715,000
26 Supplies and materials			
31 Equipment			
32 Lands and structures			
Total Other Objects	$ 1,821,318	$ 2,715,000	$ 2,715,000
Total Obligations	$ 1,821,318	$ 2,715,000	$ 2,715,000
Position Data			
Average salary, GS positions			
Average grade, GS positions			

CONSUMER INFORMATION CENTER FUND

TOTAL

POSITIONS BY GRADE AND AVERAGE EMPLOYMENT

	Actual, 1984			Program, 1985			Request, 1986		
Grade	C.O.	Field	Total	C.O.	Field	Total	C.O.	Field	Total
GS/GM-15	1	-	1	1	-	1	1	-	1
14	2	-	2	2	-	2	2	-	2
13	4	-	4	4	-	4	4	-	4
12	2	-	2	2	-	2	2	-	2
11	2	-	2	2	-	2	4	-	4
9	-	-	-	2	-	2	1	-	1
7	3	-	3	2	-	2	3	-	3
6	2	-	2	2	-	2	2	-	2
5	3	-	3	2	-	2	-	-	-
Permanent Positions	19	-	19	19	-	19	19	-	19
Avg. Empl: Permanent	17	-	17	19	-	19	19	-	19
Other	1	-	1	1	-	1	1	-	1
TOTAL	18	-	18	20	-	20	20	-	20

CLASSIFICATION BY OBJECTS

	Actual, 1984	Program, 1985	Request, 1986
Personnel compensation: Central office	$ 506,013	$ 629,000	$ 629,000
Field	-	-	-
11 Total personnel compensation	$ 506,013	$ 629,000	$ 629,000
Other Objects			
12 Personnel benefits	62,527	65,000	75,000
13 Benefits for former personnel	-	-	-
21 Travel	12,192	18,000	19,000
Travel (motor pool)	153	1,000	-
22 Transportation of things	42,915	42,000	42,000
23 Rents and utility services	3,040	6,000	6,000
Payment to Federal Buildings Fund	36,592	80,000	80,000
Communication services	55,171	60,000	60,000
24 Printing and reproduction	509,170	376,000	486,000
25 Other services	1,941,715	2,820,000	2,935,000
26 Supplies and materials	3,122	4,000	4,000
31 Equipment	15,206	-	10,000
32 Lands and structures	-	-	-
Total Other Objects	$ 2,681,803	$ 3,472,000	$ 3,717,000
Total Obligations	$ 3,187,816	$ 4,101,000	$ 4,346,000
Position Data			
Average salary, GS positions	$ 29,801	$ 31,623	$ 33,015
Average grade, GS positions	9.95	10.76	10.79

CONSUMER INFORMATION CENTER FUND

EXPLANATION OF OBLIGATIONS BY OBJECT CLASS

11.1 Personnel Compensation - $[illegible]: [illegible] FTE, all in the Central Office.

12.1 Civilian Benefits - $[illegible]: $40,000 for retirement contributions, $16,000 for health benefits, $[illegible] for accident compensation, $8,000 for FICA, and $1,000 for group life insurance.

21.0 Travel and Transportation of Persons - $14,000: For travel by CIC staff members in promoting the Catalog and services offered to the public.

22.0 Transportation of Things - $42,000: For transporting Catalogs from the printing company to Washington, DC, the Colorado distribution center, and Congressional offices.

23.[illegible] Rent, Communications, and Utilities - $146,000: $40,000 for postage, $80,000 for payments to the Federal Buildings Fund for office space; and $26,000 for telephone and equipment user charges.

24.0 Printing and Reproduction - $486,000: $447,000 for printing Catalogs; $27,000 for printing script material for radio and television stations; and $12,000 for miscellaneous printing.

25.0 Other Services - $2,9[illegible]5,000: $165,000 for preparation and distribution of public service materials for radio, television, and print media; $100,000 for special projects promoting the catalog; $45,000 for computer time; $5,000 for Spanish translating services; $15,000 for miscellaneous expenses; and $2,615,000 for payments to the Government Printing Office for the cost of distributing consumer information publications.

26.0 Supplies and Materials - $4,000: For normal administrative supplies and materials.

31.0 Equipment - $[illegible]: For the purchase of office automation equipment.

[illegible] WORKLOAD ACCOMPLISHMENTS

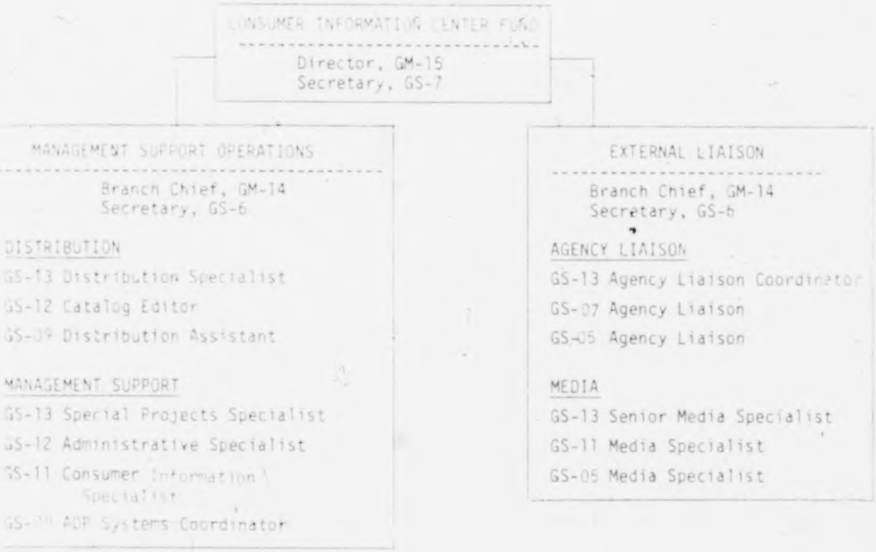
WORKLOAD FACTORS	FY 1984 ACTUAL	FY 1985 PROGRAM	FY 1986 ESTIMATED	PERCENT CHANGE FROM 1985
1. Publications Submitted for the Catalog	-	[illegible]	50	-
2. Publications Distributed (Millions)	[illegible]	6.5	6.5	-
3. Print and Electronic Media Releases Highlighting Federal Consumer Information	90	80	80	-
4. Public Service Advertising Programs for the Media	1	1	1	-
5. Media Hot Line Calls	600	625	625	-

CONSUMER INFORMATION CENTER FUND
(Dollars in Thousands)

	*Actual 1984	Estimate 1985	Request 1986	Change 85 vs. 86
Source of Funding:				
Unobligated Balance Brought Forward	517	420	420	-
Unobligated Balance Restored	48	-	-	-
Appropriations	1,048	1,149	1,249	+100
Reimbursements from Agencies	[illegible]	3,115	3,115	-
User Fees	[illegible]	400	482	+82
Total Resources Available	4,1[illegible]	5,084	5,266	+182
Application of Resources:				
Consumer Information Center				
Operations Program:				
Administrative Expenses:				
Salaries and Benefits	569	694	704	+10
Printing of the Catalog	[illegible]	340	447	+107
Advertising Campaign	4	55	155	+100
All Other	[illegible]	297	325	+28
Total Administrative Expenses	1,266	1,386	1,631	+245
Special Projects (Funded by User Fees)	100	100	100	-
Publications Distribution Program: Reimbursable Costs	1,[illegible]	3,115	3,115	-
Proposed Rescission of Unobligated Balances Pursuant to Section 2901 of the Deficit Reduction Act of 1984	-	63	-	-63
Unobligated Balance Carried Forward	420	420	420	-
Total Resources Applied	4,1[illegible]	5,084	5,266	+182

*Amounts in this column differ from the November 15, 1984 Report to the Committees on Appropriations because of prior year adjustments that were not reflected in the report.

FY 1985 Staffing


CONSUMER INFORMATION CENTER FUND
Director, GM-15
Secretary, GS-7
MANAGEMENT SUPPORT OPERATIONS
Branch Chief, GM-14
Secretary, GS-6
DISTRIBUTION
GS-13 Distribution Specialist
GS-12 Catalog Editor
GS-09 Distribution Assistant
MANAGEMENT SUPPORT
GS-13 Special Projects Specialist
GS-12 Administrative Specialist
GS-11 Consumer Information Specialist
GS-[illegible] ADP Systems Coordinator
EXTERNAL LIAISON
Branch Chief, GM-14
Secretary, GS-6
AGENCY LIAISON
GS-13 Agency Liaison Coordinator
GS-07 Agency Liaison
GS-05 Agency Liaison
MEDIA
GS-13 Senior Media Specialist
GS-11 Media Specialist
GS-05 Media Specialist

All professional staff members GS 5-13 have Agency Liaison responsibilities.

SUBMITTED QUESTIONS

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR GARN

GPO COSTS

Question: What was the unit cost of distributing free publications from the GPO facility in Pueblo, Colorado in FY 84 and how does it compare with your estimates for FY 85 and FY 86?

Answer: In FY 1984, the final unit cost for distributing free publications was 33¢.

Beginning with FY 1985, GPO instituted a new method of assessing charges to CIC based on their actual costs each month. This new system provides us no reliable way to project unit costs in advance of the receipt of each bill. Since GPO had projected that unit costs would increase about 25% under this new system, we have been estimating unit costs for FY 1985 to be 42¢ and in FY 1986 to reach 43¢. However, billings to date show costs increasing by as much as 45%.

Question: What impact would these increases have on publication distribution?

Answer: We feel that such price increases are unwarranted and are very concerned about the impact that such increases could have on our program. They are likely to decrease the number of publications distributed since agencies have limited resources available for this activity.

Question: What steps are you taking to keep the costs as low as possible for participating agencies?

Answer: We are currently involved in discussions with GPO officials to determine why cost increases are so substantial, what steps can be taken to decrease costs, and how to establish a consistent and equitable method of billing.

We think it is vital to the continued success of the CIC program that costs be kept as low as possible.

PUBLIC SERVICE ADVERTISING CAMPAIGNS

Question: The last set of television public service announcements were produced and distributed at a cost of $155,000. These ads received about $4 million of free air time donated to the Government. What are your plans for Public Service Advertising Programs for FY 85 and FY 86?

Answer: Public service advertising is a powerful and cost-effective way to inform citizens of the availability of Federal consumer information. In FY 1985, we plan to release the "Wild West" tv spots that were produced with FY 1984 funds. In FY 1986, we are requesting $100,000 to enable us to both produce and distribute television public service announcements during that fiscal year.

Question: Would you please provide, for the record, an annual distribution of the funds spent for public service advertising campaigns for FY 80 through FY 84?

Answer: A summary of funds spent for public service advertising for FY 1980 through 1984 follows:

FY 1980	-	$153,127	Production and distribution of "Oceanliner" television public service announcements, plus one set of print ads for newspapers and magazines.
FY 1981	-	-0-	
FY 1982	-	$ 7,500	Production of one set of print ads.
FY 1983	-	$51,738	Re-release of previously produced (1979) "Locomotive" television public service announcements.
FY 1984	-	$74,000	Production only of "Wild West" television public service announcements. Distribution of spots to tv stations nationwide will be funded in FY 1985. Also, production of two sets of print ads.

LOW-PRICED PUBLICATION PROGRAM

Question: How many publications were distributed in FY 83 and FY 84 under the low-priced publication program where selected publications are made available to the public for 50 cents?

Answer: This program began in the first quarter of FY 1984. In FY 1984, there were about 290,000 publications distributed under the low-priced publication program. We project that 350,000 will be distributed in FY 1985. (The number distributed from the beginning of the program through February 1985 is 430,000.)

Question: Would you briefly explain how this program works?

Answer: The program works through the cooperative efforts of the sponsoring agencies, the Government Printing Office, and the Consumer Information Center. CIC is responsible for identifying publications suitable for this distribution category. CIC lists the booklet in the Consumer Information Catalog as well as doing whatever media promotion is necessary. Agencies pay for the printing and shipping to Pueblo of the initial and replenishment quantities. GPO receives and processes the orders for these publications and keeps the 50¢ amount that consumers pay to recover its costs of warehousing, processing and postage.

Question: What are your future predictions for this program?

Answer: The program has grown from listing twelve 50¢ publications in the Fall 1983 Catalog to the current number of 43 in the Spring 1985 Catalog. We believe that there is room for future growth and would predict that 50¢ publications could eventually represent 1/3 of our listings (about 75).

INTERACTION WITH OTHER FEDERAL AGENCIES

Question: Would you please provide two separate tables indicating the Federal agencies that have been added to, or dropped from, the CIC Agency Liaison Program and the CIC Free Distribution Program?

Answer: CIC maintains liaison with more than 30 major departments and agencies in order to ascertain their information dissemination needs and to devise strategies to meet those needs. Our involvement ranges from assisting in publication development and dissemination, to providing media promotion, to evaluating the public response to information.

Attached are listings of the agencies with whom CIC has maintained liaison during the past five years, and of the Agencies that have participated in the CIC free distribution program.

THE CIC AGENCY LIAISON PROGRAM
(FY 1980 - FY 1984)

Agencies	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984
ACTION	-	-	-	-	x
Agriculture	x	x	x	x	x
Civil Aeronautics Board	x	x	x	x	x
Commerce	x	x	x	x	x
Commodity Futures Trading Comm.	-	-	-	x	x
Community Services Administration	x	x	-	-	-
Congressional Committees	-	-	x	x	x
Consumer Product Safety Comm.	x	x	x	x	x
Defense	x	x	x	x	x
Education	x	x	x	x	x
Energy	x	x	x	x	x
Environmental Protection Agency	x	x	x	x	x
Fed'l Deposit Insurance Corp.	x	x	x	x	x
Fed'l Emergency Mgmt. Agency	-	-	-	-	x
Federal Home Loan Bank Board	x	x	x	x	x
Federal Reserve Board	x	x	x	x	x
Federal Trade Commission	x	x	x	x	x
Food & Drug Administration	x	x	x	x	x
General Services Administration	x	x	x	x	x
Government Printing Office	-	-	-	-	x
Health and Human Services	x	x	x	x	x
Housing and Urban Development	x	x	x	x	x
Interior	x	x	x	x	x
Justice	x	x	x	x	x
Labor	x	x	x	x	x
Library of Congress	x	x	x	x	x
Nat'l Aeronautics and Space Admin.	-	-	-	-	x
Nat'l Institutes of Health	x	x	x	x	x
Postal Service	x	x	x	x	x
Pres. Council for Int'l Yth. Ex.	-	-	-	-	x
Pres. Council on Phy. Ftns. & Spts.	x	x	x	x	x
Securities & Exchange Comm.	x	x	x	x	x
Selective Service System	-	-	-	x	x
Small Business Administration	x	x	x	x	x
Smithsonian	x	x	x	x	x
Social Security Administration	x	x	x	x	x
State	x	x	x	x	x
Transportation	x	x	x	x	x
Treasury	x	x	x	x	x
U.S. Information Agency	-	-	-	-	x
U.S. Office of Consumer Affairs	x	x	x	x	x
Veterans Administration	x	x	x	x	x

x = participating
- = inactive
March 1985

CONSUMER INFORMATION CENTER FREE DISTRIBUTION PROGRAM FY 1980 - FY 1984
ORGANIZATIONS PARTICIPATING AND ACTUAL EXPENDITURES ($)

Organization	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984
Agriculture	750,000	946,100	867,150	53,905	19,500
American Council on Life Insurance	-0-	-0-	-0-	-0-	36,900
Civil Aeronautics Board	74,000	31,000	3,687	-0-	-0-
Commerce	289,000	27,000	-0-	-0-	-0-
Commodity Futures Trading Comm.	-0-	-0-	-0-	14,000	-0-
Consumer Product Safety Commission	23,000	2,400	-0-	-0-	-0-
Education	-0-	-0-	103,336	92,400	36,000
Energy	407,000	277,700	3,687	5,600	1,000
Environmental Protection Agency	107,000	12,000	-0-	-0-	-0-
Fed. Deposit Insurance Corp.	9,000	-0-	-0-	-0-	-0-
Federal Emergency Mgmt. Agency	-0-	-0-	-0-	-0-	14,100
Federal Reserve Board	-0-	6,000	66,465	70,000	27,200
Federal Trade Commission	153,000	30,100	-0-	-0-	-0-
General Services Administration	198,000	33,000	25,810	123,200	85,629
Government Printing Office	-0-	-0-	-0-	-0-	3,900
Health and Human Services	1,936,550	2,466,535	1,971,828	1,968,400	1,271,400
Housing and Urban Development	192,000	225,900	236,169	95,200	9,900
Interior	23,000	130,000	107,023	75,600	43,700
Justice	-0-	6,000	7,000	8,400	-0-
Labor	232,000	167,000	154,956	106,400	15,300
Library of Congress	-0-	-0-	-0-	8,400	-0-
Postal Service	-0-	-0-	-0-	17,200	22,300
Securities and Exchange Comm.	40,000	38,800	25,810	-0-	-0-
Selective Service System	-0-	-0-	-0-	5,600	-0-
Small Business Administration	79,000	1,100	-0-	16,800	50,200
Transportation	441,000	493,000	158,643	72,800	28,100
Treasury	-0-	6,000	-0-	5,600	1,000
U.S. Information Agency	-0-	-0-	-0-	-0-	27,700
Veterans Administration	40,000	25,900	18,436	25,200	2,400
TOTALS	4,993,550	4,925,535	3,750,000	2,764,705	1,696,229

PAYMENTS TO THE GOVERNMENT PRINTING OFFICE

Question: The largest item in your budget is Object Class 25, Other Services. Almost 90% of this category is the $2,615,000 provided for payments to the Government Printing Office (GPO) for the cost of distributing consumer information publications. Would you provide, for the record, a brief explanation of the relationship between Federal agencies sponsoring a publication, CIC, and GPO, illustrating the transfer of funds between these organizations?

Answer: Agencies that wish to participate in the CIC's free distribution program must provide sufficient quantities of the publication to meet projected demand and must pay CIC for all costs associated with the distribution of these publications. CIC subcontracts with the U.S. Government Printing Office to provide order processing services through its facility in Pueblo, Colorado. CIC is billed by GPO for these services.

In April of each year, CIC conducts a review of each agency's actual distribution for the previous four quarters and projects the distribution levels for the FY beginning 17 months later. In consultation with GPO, the cost of supporting these levels of distribution is calculated and all of this information is provided to the Agency for formulating their budget request.

As part of this mid-year analysis, CIC also reviews its previous projections for the current fiscal year and the subsequent fiscal year and makes revisions as needed.

As far as the actual transfer of funds, at the beginning of each fiscal year CIC bills agencies one-half of the most current cost projection for that fiscal year. The following April, CIC calculates the final bill for the year based on a review of the distribution level of the agency during the first 6 months, and a projection of activity for the second 6 months. Monies received from the agencies are deposited into the CIC Fund and are used to pay the monthly bills sent by GPO.

CIC closely monitors the operation of the GPO distribution facility and the monthly billings to insure that all services billed are provided at the lowest possible cost.

BUDGET SUBMISSION

Question: Was the budget submitted to OMB different from the President's budget justification? If so, in what areas? What is the implication of these changes?

Answer: The FY 1986 budget request was approved by OMB for the President's budget exactly as submitted.

QUESTION SUBMITTED BY SENATOR LEAHY

ACTIVITIES IN VERMONT

Question: Please describe all activities undertaken, directly or indirectly, or facilities owned, leased or otherwise controlled in the state of Vermont?

Answer: The CIC has no specific activities underway in the State of Vermont nor does it own, lease or otherwise control any facilities in the State.

QUESTION SUBMITTED BY SENATOR PROXMIRE

INCREASING USER FEES TO THE PUBLIC

Question: What are your thoughts about gradually phasing in increased user fees in order to completely cover CIC costs?

Answer: In FY 1986, the CIC anticipates total administrative expenses of $1,631,000. In order to totally cover these expenses with user fee revenue, the user fee would have to be raised from $1.00 to $5.44. This assumes that consumers would order publications at the same rate at the $5.44 fee as they would at the $1.00 fee. It seems highly unlikely that this would be the case.

Based on our 10-month study of user fees as well as the operational experience that we have had with the $1.00 fee, we project that gradually increasing the fee might have a positive short-term effect on the revenue generated, but that it would also significantly decrease the publications distributed. With the establishment of the $1.00 fee, catalog publication orders decreased approximately 40%. Increasing the fee, however gradually, would be likely to trigger another precipitous drop. The rate of erosion would be dependent on the amount of increase in the fee until a certain threshold is reached. Undoubtedly, there is a level of user fee above which consumers will not pay for the service. At that point, most consumers would simply not send for the information. Once the fee reached this level of non-acceptance by the public, revenues would never approach program costs.

While full cost recovery from those who benefit from a service is a sound and accepted business principle, we do not believe that it is a feasible goal with the CIC user fee. Although increased user fees might generate revenue in the short-term, they would also sharply decrease the amount of Federal information getting into the hands of citizens. This would be contrary to the CIC program mission of assisting Federal agencies promote and distribute their information to the public. Also, it's not unreasonable to assume that those individuals who no longer used the service as the fees increased would be the lower-income, lower-educated groups who are most in need of Federal consumer information.

It's in the best interest of the Government to keep its citizens informed about topics such as changes in Federal programs, and health and safety issues. We believe that the benefits derived by Federal agencies in having a cost-effective means of transmitting their program information to the public warrants Federal funding of the CIC program. Also to be considered are the benefits derived by the nation as a whole from having a better informed populace which uses this information to function independently in the marketplace.

NATIONAL CREDIT UNION ADMINISTRATION

STATEMENT OF EDGAR F. CALLAHAN, NATIONAL CREDIT UNION ADMINISTRATION

ACCOMPANIED BY:
WILLIAM C. POLING, BUDGET OFFICER
CHARLES FILSON, PRESIDENT, CENTRAL LIQUIDITY FACILITY
WENDELL SEBASTIAN, GENERAL COUNSEL

OPENING REMARKS

Senator GARN. The next agency, the National Credit Union Administration.

Mr. Callahan, it is a pleasure to have you with us today. It is not often we have an agency which seems happy with their budget request, much less one which has been unchanged over the past several years.

Furthermore, I would like to observe that your prepared remarks are not only as brief as they were last year, but are equally encouraging in that you appear to have the resources to fully carry out your legislative mandate.

Mr. Callahan, please proceed.

Mr. CALLAHAN. Thank you, and good morning, Mr. Chairman.

Mr. Chairman, and members of the subcommittee, accompanying me to discuss the appropriation request for the National Credit Union's Central Liquidity Facility are Bill Poling, our Budget Officer, Chip Filson, the President of the Central Liquidity Facility, and Wendell Sebastian, our General Counsel.

BUDGET REQUEST

For fiscal year 1986, we are requesting a $600 million limit on new loans, the same number as the previous 5 years. The expense limitation of $850,000 is the same as the current fiscal year and has been unchanged for the past 4 years.

We believe the lending limit is adequate to meet the liquidity needs of the over 18,000 credit union members of the CLF. While consumer loans at credit unions rose over 26 percent in 1984, the system is still liquid. Our agents, the 42 corporate credit unions have reported minimal increases in loans even though loans outstanding at their member credit unions have increased 44 percent in the past 2 years.

The CLF's loan balances of $288.5 million at February 28, 1985, represent a very slight 6.9-percent increase since our fiscal year-end 5 months ago. At this time, we do not foresee any dramatic change in this level. The stability in our loans is a good indication of credit union's ability to successfully manage their institutions in response to the pressure and opportunities of the marketplace.

Finally, I would add that 30 days ago credit unions and the NCUA completed an $843 million capitalization of the National Credit Union share insurance fund. This extraordinary self-help effort would not have occurred without your legislative leadership, Mr. Chairman. The CLF offered loans to any credit union that needed to borrow to meet this capital requirement. We had only one request for $7,000 that in the words of our agent was really a test to see if the system worked the way we said it would work.

For 5½ years the CLF has been in place meeting the unexpected liquidity demands that can occur in any financial system. Mr. Chairman, today the system provides service to more credit unions at a lower cost and with fewer employees than at any other time in its history. Credit unions and we are proud of its success.

CAPITALIZATION

Senator GARN. Thank you very much.

It is not easy to think of any new questions to ask you this year. With the capitalization that you have mentioned, we worked together and I appreciate your cooperation. It wasn't just me and other members of the Banking Committee; the whole credit union operation was very helpful and being willing to work that capitalization out. I can't think of a more desirable thing when people come from the private sector and say we are willing to help our own situation. We are not back here demanding that Government do it for us. So it appears to me that the system is working well, contrary to the problems we have in some other areas. I don't want it to look like I am looking for additional problems, but with declining liquidity of credit unions in the period and higher consumer spending, how confident are you that the $600 million limit on new lending will be adequate through fiscal 1986?

LENDING LIMIT

Mr. CALLAHAN. Mr. Chairman, I will ask the President to handle that. He shares my confidence and he can express it better than I.

Mr. FILSON. Mr. Chairman, we are very confident this should be adequate for 1986. Through the first 5½ months of this year, we have only used $30 million of the new lending authority of $600 million for the current fiscal year and credit unions, we believe, have enough earnings capability to more than meet whatever prices may be required to raise the funds they need in the marketplace. So we believe this will be very adequate.

Senator GARN. Yes, as I said, it is hard to find new questions with an agency that is doing what they told us they would do last year. So I will submit the rest of my questions to you for your response in writing.

Senator Proxmire.

CLF MEMBERSHIP

Senator PROXMIRE. Thank you, Mr. Chairman.

You say 18,000 credit union members of the CLF, does that mean you have 18,000 credit unions; is that an accurate interpretation of what you are saying?

Mr. FILSON. There are over 18,000 credit unions in the United States in total. They have the option when they join the CLF of joining directly. Fifty-five percent exercised the option to join directly. The remainder joined the corporate system, which are similar to wholesale banks, and that is where we serve most of that number.

Senator PROXMIRE. As I am sure you know, your international headquarters is in Madison, WI, and we are very, very proud of you. You are a great neighbor and contribute greatly to the State, and we think credit unions are making a marvelous contribution and a much bigger contribution as time goes on with your greater powers that we have provided in recent years.

CLF SOLIDITY

Last year, there were more bank failures than in any year for 50 years—79 bank failures. I think some people anticipate there may be even further failure this year. How solid is the Central Liquidity Facility of the National Credit Union Administration?

Mr. FILSON. The Central Liquidity Facility has over $245 million in total capital—I am sorry, right at the end of February, $254 million out of total assets of $554 million. It is extremely solid.

INSURANCE FUND SOUNDNESS

Senator PROXMIRE. As you know, there is some anxiety about solidity of our insurance funds. Chairman Gray of the Federal Home Loan Bank Board expressed concern. But we feel ours is pretty solid. How do you account for the fact in view of the fact other financial institutions are having some difficulties, these are very trying times, the high interest rates have been difficult, the farm situation has been very painful, we have expanded your powers for you and you have taken advantage of that. How do you account for your soundness?

Mr. CALLAHAN. I think deregulation would get my nod, Senator. Credit unions have responded admirably well to it. The number of problem credit unions has decreased threefold in the last 2 years. We have gone from a year where we had 256 liquidations 2 years ago down to only 40 in this past year. The number of credit unions losing money has dropped off, over 50 percent in this last year. We would have to go back and say they have been able to use the opportunities of deregulation to their advantage and still stick with what they know best and that is serving their member needs.

Senator PROXMIRE. It seems contradictory. At a time when the banks and savings and loans are having difficulty—doing a good job under the circumstances but having more difficulty than they had in the past—you folks are doing better.

CREDIT UNION STABILITY

Mr. CALLAHAN. The first thing, I would say it was a matter of anticipation. You take the issue of insurance. We were concerned that insurance is only a confidence builder anyhow in the marketplace and that our fund did not appear to be as stable as it should be. We went to the credit unions and discussed it openly and they came up with this self help solution that now gives them really the crowing rights in town to say we have the strongest fund in Washington. But I would say it is just anticipation of the marketplace. This is going on with all of the regulatory agencies right now as well as their trade associations. I would give the volunteers out there a nod in saying their willingness to work together has enabled them to put this system together.

Senator PROXMIRE. Mr. Callahan, I want to thank you also for paying your respects to the deregulation legislation. The Proxmire bill in 1980 and the Garn bill in 1982 deserve a lot of credit, I'm sure. [Laughter.]

Let me ask you, though, those bills did add to the powers already held by credit unions. How much of these added powers have been used and how important are they more likely to become?

DEREGULATION

Mr. CALLAHAN. I would say they have certainly been used. I would say they have been used prudently, however. For example, the ability to make mortgage loans at one time may have seemed like a very interesting prospect for credit unions. I think that is being tempered now and is only one utilized by those who can really handle it for their members' needs. Aside from that, I give credit to the solidness of the system because they have perfected what they have been doing for over 50 years.

Senator PROXMIRE. I have a mortgage loan on my house from a credit union bank in 1949, about a $25,000 mortgage, which at that time was pretty good. Would you, for the record, give us some statistics on how much the credit unions have taken advantage of the deregulation; that is, how much more personal loans, so forth?

Mr. CALLAHAN. We will be happy.

Senator PROXMIRE. As well as mortages?

Mr. CALLAHAN. We have that information and will forward it, Senator.

[The information follows:]

Federal credit savings and loans have increased 16.1 percent and 26.9 percent, respectively, during the past year. This is the third consecutive year of double digit expansion for credit unions. In addition, Federal credit unions gained over 1.3 million new members last year. Legislative deregulation has played a major role in positioning credit unions to effectively compete in the current economic environment. For example, the Depository Institutions Deregulation and Monetary Control Act of 1980 permitted credit unions to set terms and conditions on share accounts. As a result, credit unions have established accounts tailored to meet the specific needs of members, thus taking a more responsive role in the financial marketplace.

In 1983 FCU's made 27,000 real estate loans, totaling $826 million. In 1984 FCU's made 81,000 real estate loans, totaling $1.59 billion. This represents a 30-percent increase in dollar amount and almost a 200-percent increase in number of real estate loans.

Senator PROXMIRE. Thank you. Thank you, Mr. Chairman.

Senator GARN. Thank you, Mr. Callahan.

SUBMITTED QUESTIONS

[The following questions were not asked at the hearing but were submitted to the Administration for response for the record:]

QUESTIONS SUBMITTED BY SENATOR GARN

OPERATING FUND

The Budget Appendix includes new proposed language for the National Credit Union Administration Operating Fund which limit amounts available for travel and transportation of personnel to $3,071,000. I believe this is the first annual limitation ever proposed for the Operating Fund.

Question: Can you explain the origins of this proposal?

Answer: The origin of this proposal stems from the Office of Management and Budget's is concern over our increased travel request in the central office. The intent of the NCUA Board was to continue to take the Board meetings to the credit union people which accounted for the moderate increase in our 1986 Travel request.

Question: What impact will this limitation have on NCUA activities?

Answer: The impact of this limitation will have no affect on the overall activities of the Agency but will require a reexamination of the Boards proposed travel costs associated with geographical locations of Board meetings for FY 86.

CENTRAL LIQUIDITY FACILITY LOAN PORTFOLIO

Last year, I asked you about the target interest rate spread for the facility.

At that time, you stated that a goal of 100 basis point spread should be maintained, but that at the time of that hearing it was 68 basis points.

Question: Please update us on your experience since that time.

Answer: The spread on a year-to-date basis (5 months) is 18 basis points. This is because virtually all of our loans are to credit unions via the corporate system who have long-term low interest rate securities and are using these funds to temporarily liquify these securities. We would hope to move closer to our 1.00% goal as credit union circumstances permit. The CLF loan rate is administered and part of the rate setting is based on input from our agents who, for this type of loan, are taking virtually no spread because they are fully secured. Our agents have asked us to reduce our normal spread to pass on the majority of the benefit (from this program) to the problem case credit unions.

PROTRACTED LOAN PROGRAM

Last year during your hearing, you listed the amounts of each of your "protracted loans and the maturity dates" indicating all would be repaid in FY 84.

Question: Were the two loans you identified last year paid in full as expected?

Answer: Yes, Eglin and Fort Ord FCUs paid their protracted loans in full.

INSURANCE FUND

I am pleased to hear that your capitalization of the National Credit Union Share Insurance Fund has been completed. This triples the assets of the Fund and better matches the estimated $100 billion of insured credit union deposits.

The Fund's payments for insurance claims and indemnities are projected to fall from $30 million in FY 84 down to $17.5 million in FY 85 and remain at that level in FY 86.

Question: Has your estimate changed since these budget documents were prepared?

Answer: Our estimate for insurance costs had changed since the budget documents were prepared. We now project that these costs will be between $10-12 million for FY 85 and remain at that level for FY 86.

Question: Does the $17.5 million level of insurance claims represent a "normal" level of loss?

Answer: The level of insurance costs is a function of the economic environment and credit union management's ability to respond successfully to changing markets. Although there is not a "normal" level of loss, the $17.5 million is closer to the Funds long-run average loss.

BROKERED FUNDS

We don't hear of much of a problem with brokered funds with credit unions as we have had with banks and thrifts. We did see a situation a while back where the House of Representatives Federal Credit Union lost some funds invested in oil and gas loans through a southwestern bank.

Question: Has this been much of a problem?

Answer: Brokered funds have not been much of a problem in credit unions. About a year ago NCUA instituted an "Investment Hotline" service — a toll-free number where credit unions, brokers, and NCUA examiners can call to determine if a proposed investment or broker activity is legal for federal credit unions. By an exchange of information, NCUA has been preventive rather that reacting after investment problems have occured. For example, credit unions were not involved with E.S.M Government Securities — the securities broker that recently failed and left thrifts and municipalities facing losses of up to $315 million. Credit union officials contacted the Investment Hotline months earlier when they were approached with the investment opportunity from E.S.M. The proposal raised a number of legal and safety and soundness issues. NCUA contacted E.S.M and told E.S.M not to market to federal credit unions until they could document the program. E.S.M never followed up. NCUA alerted the regional and examiner staff to the situation.

LIMIT ON NEW LOANS

Mr. Callahan, it is not easy to think of any new questions to ask of you this year. With the capitalization of the National Credit Union Share Insurance Fund, the favorable resolution of the tax liability of the CLF, and the general financial stability of the credit unions, it appears that the system is working well.

Question: I don't want to appear like I'm looking for additional problems, but with the four-fold expansion of CLF membership and declining liquidity of credit unions in this period of higher consumer spending, how confident are you that the $600 million limit on new lending will be adequate through FY 86?

Answer: This limit is adaquate. Through the first 6 months of FY 85 we have used only $30 million of our $600 million new lending authority. We capitalized NCUSIF in January with no borrowing demand. Since CU's earnings are strong, credit unions should be able to compete successfully for funds, so that resort to the CLF will continue to be an unusual event.

FEDERAL HOME LOAN BANK BOARD

STATEMENT OF EDWIN GRAY, CHAIRMAN

ACCOMPANIED BY:
ERIC HEMEL, DIRECTOR, POLICY AND ECONOMIC RESEARCH
NORMAN RAIDEN, GENERAL COUNSEL
SHANNON FAIRBANKS, EXECUTIVE STAFF DIRECTOR
DONALD HOVDE, BOARD MEMBER
MARY GRIGSBY, BOARD MEMBER
WILLIAM SCHILLING, DIRECTOR, EXAMINATIONS AND SUPERVISION
WILLIAM BOYER, DEPUTY DIRECTOR OF ADMINISTRATION
PETER STEARNS, DIRECTOR, FSLIC
DENNIS PITTMAN, BUDGET OFFICER
WILLIAM CASEY, DEPUTY DIRECTOR OF PERSONNEL
LAWRENCE WITHERS, CONGRESSIONAL RELATIONS
FRANK HAAS, DIRECTOR, OFFICE OF DISTRICT BANKS

OPENING REMARKS

Senator GARN. The next witnesses are from the Federal Home Loan Bank Board.

Mr. Gray, welcome to your third meeting before the subcommittee. It is a pleasure to see you and your colleagues again. Your prepared remarks paint a picture far from pleasant. We did have the opportunity yesterday to meet with you and the people who are here with you today to discuss some of those problems in detail. I appreciate that opportunity. Although the economic recovery and reductions in interest rates have eased pressures the last couple of years on thrift institutions, other factors are posing serious strains on the system.

As you well know, I wear two hats in the Senate—Chairman of the Banking Committee, where I exercise oversight over the statutory policies of the financial industry, and chairman of this subcommittee where on an annual basis I attempt to review the impacts of those policies through the regulatory agencies. Senator Proxmire wore the same two hats. So both of us have looked at this situation for a long time.

PREPARED STATEMENT

Your entire statement will be included in the record. I would appreciate it, however, if you would summarize that so we can discuss the significant issues you are raising. Please proceed.

[The statement follows:]

STATEMENT OF EDWIN J. GRAY

Mr. Chairman, Members of the Subcommittee, I appreciate the opportunity to appear before you today to present the fiscal year ("FY") 1986 budget request of the Federal Home Loan Bank Board. Our 1986 request of $71,649,000 is a 2.2 percent increase over our revised FY 1985 budget of $70,058,000. This minimal increase is due largely to the Administration's proposed five percent reduction in the pay of federal employees effective in the quarter commencing January 1, 1986.

To assist the Subcommittee in its policy oversight function, my statement will also address (1) the Federal Home Loan Bank Board's ("Bank Board" or "Board") critical supervisory staffing needs; (2) the economic status of the thrift industry in 1984; (3) the examination and supervisory activities of the Board's examination force; (4) the status of the Federal Savings and Loan Insurance Corporation ("FSLIC") fund; (5) the performance and supervisory actions of the FSLIC; (6) the Board's perspective on the legislative issues confronting the 99th Congress; and (7) the Board's equal employment efforts.

I. OVERVIEW OF THE BOARD'S SUPERVISORY STAFFING NEEDS IN A DEREGULATED ENVIRONMENT

The Board is currently facing tremendous staffing problems, particularly with respect to maintaining an adequate examination and supervisory force. As a result of industry deregulation and the new authority now available to savings institutions, especially to some state-chartered institutions with more liberal powers, Board examiners are now examining a more sophisticated industry with larger institutions engaging in more diversified and complex financial transactions. This changing environment has resulted in increased scrutiny of our examination processes and requirements. Heretofore, strict regulatory limits on activities provided protection for the FSLIC. In an era of deregulation, however, it is axiomatic that additional examination and supervisory personnel will be the necessary device to protect the insurance fund from excessive risk.

The critical need for a heightened and larger examination force has been recognized by both the Congressional committee charged with oversight of the financial regulators and the Department of the Treasury. In its report on Criminal Misconduct and Insider Abuse, H.R. Rep. No. 98-1137, 98th Cong., 2d Sess. 51 (1984) the House Committee on Government Operations ("the Barnard Committee") noted that the job of bank examiner has become increasingly complex and demanding. As Congressman Spratt remarked at the Subcommittee's June 28, 1983 hearing, "Examiners are stretched out in their responsibilities already. They used to be auditors. Now they have to look at community reinvestment, they have to look at truth-in-lending, and they have to look at nuclear evacuation plans of all things." In addition, the Barnard Committee noted that the supervisory agencies, especially the Bank Board, which is constrained by the staffing, administrative and budgetary requirements of the Office of Management and Budget ("OMB") and other Executive branch agencies, suffer from high turnover due to low pay, difficult working conditions, personnel cutbacks and increased workloads.

The Treasury Department, in its Federal Deposit Insurance Report (January, 1985) also highlighted the Bank Board's critical need for additional examination and enforcement resources. The report echoes the Barnard Committee's concern by stating that "... Developing a large cadre of trained, capable, and experienced examiners, liquidators, and supervisory personnel is a slow process, constrained in part by the jobs' mobility requirement, government pay scales relative to private industry, and pressures to reduce the size of the federal workforce." Moreover, the report continues, "... given the current conditions of the ... thrift [industry], substantial demands on the [agency's] staff should continue for some time ..." The Treasury Department specifically recommends authorizing the Board to augment examination, supervision, and enforcement staff on a priority basis.

In response to this widely recognized problem, the Board requested OMB authorization for additional field examiner positions during the FY 1986 budget process. In addition, pursuant to the House Committee on Government Operations' directive to examine the problems inherent in the "split" in authority between the field examiners of the Office of Examinations and Supervision ("OES") and the supervisory staff of the Federal Home Loan Banks (i.e. off-budget), H.R. Rep. 98-953, 98th Cong., 2d Sess. 13 (1984), the Bank Board has solicited OMB's support for our efforts to remove the field examiners and their field nonadministrative employees from the appropriations process to the status now provided for employees of the Federal Deposit Insurance Corporation ("FDIC").

Finally, the Board has established a Task Force on Examination-Supervision Restructuring ("Task Force") to study options for improving the process of examination and supervision coordination and communication. The Task Force is strongly considering recommending to the Board that field examiners be made a part of the Federal Home Loan Bank ("FHLBank" or "FHLB") system.

I shall describe these examination restructuring initiatives in greater detail later in my statement. But first, I believe it would be helpful to begin with a discussion of the current status of the thrift industry.

II. DEVELOPMENT AND STATUS OF THE THRIFT INDUSTRY IN 1984

1. Housing Mission Reaffirmed

During 1983 and 1984, a Presidential task group chaired by Vice President Bush conducted one of the most extensive reviews of the regulation of financial services in U.S. history. Although the Task Group recommended a number of legislative changes to improve the regulatory process, its most important contribution to the savings institutions' future was its unanimous reaffirmation of the Bank Board's distinct and special role in regulating the nation's thrift institutions. The Task Group concluded that the Bank Board should be retained and expanded to regulate all traditional thrifts, as well as banks with an equivalent thrift portfolio that desire thrift regulatory treatment. The Task Group also agreed that the Board should continue to operate the Federal Home Loan Banks and the FSLIC.

2. Economic Conditions

Although thrift institutions significantly increased their already large contribution to housing markets last year, developments during the course of the year have clearly demonstrated the fragility of the industry's recovery from the large operating losses experienced in 1981-82 and its vulnerability to interest rate changes during the lengthy period required to restructure balance sheets to reduce such risk. More significantly, a rise in thrift holdings of sub-standard assets, as well as the failure of several larger institutions in the recent past, indicate that some institutions have increased their exposure to credit risk by reducing loan underwriting standards.

FSLIC-insured institutions had net income after taxes (but exclusive of the special preferred stock dividend paid by the Federal Home Loan Mortgage Corporation ("Freddie Mac")) of approximately $1.1 billion in 1984.[1/] This is substantially less than the $2.0 billion achieved in 1983. It represents a return on assets of approximately 0.12%, compared to 0.27% in 1983. Moreover, even including the $0.6 billion extraordinary Freddie Mac stock dividend, net income last year is estimated at only $1.7 billion (0.18% return on assets), still well below the 1983 level. This is still, of course, sharply better than the operating losses experienced in 1981-1982, but sharply below the level of profitability prevailing in the late 1970s when the industry was considered, by relative measurements, at the peak of health. (See Chart 1).

In addition to asset quality problems, which I will discuss in more detail in relation to the FSLIC fund ("Fund"), economic developments during the course of the year are indicative of the industry's continuing vulnerability to interest rate changes. The annualized return on assets declined from 0.23 percent in the last half of 1983 to 0.16 percent in the first quarter of 1984, as gross operating income grew somewhat more slowly than did interest paid on deposits and borrowing in the prevailing relatively stable interest rate environment. The industry's return on assets then increased to an annualized rate of 0.31 percent in the second quarter of last year, despite sharply rising market interest rates, because rising interest rates affect average funds cost only with a lag and because the pickup in housing market activity increased fee income. In the third quarter of last year, however, the full impact of the earlier rise in market interest rates resulted in a much sharper rise in the cost of funds than in operating income; consequently, the annualized return on assets dropped to a meager 0.05 percent. Moreover, preliminary indications suggest no improvement in the

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[1/] Figures represent actual data for the 1st three quarters and estimated amounts for the fourth quarter.

fourth quarter (exclusive of the Freddie Mac stock dividend), despite the sharp decline in market interest rates, because of the delayed effect of interest rate changes on the cost of funds.

And despite the overall profitability of the thrift industry last year, during the third quarter, 31% of all FSLIC-insured institutions were operating in the red. During 1984, FSLIC-insured institutions increased their regulatory net worth by $4.9 billion to reach a total of $37.9 billion. This compares to total assets of FSLIC-insured institutions of $978.5 billion on December 31, 1984.

Even so, because deposits and borrowings rose even more rapidly, the ratio of regulatory net worth to total assets edged down from 4.03 percent at the end of 1983 to 3.88 percent at the end of December. (See Chart 2). Some 30% of the industry had a ratio of regulatory net worth to total assets of less than 3%. About two-fifths of the growth in regulatory net worth in the first nine months of 1984 was from the sale of stock (mostly in conjunction with the conversion from mutual-to-stock form of organization), 17% resulted from the sale of debentures, and most of the remainder came from retained earnings.

The removal of deposit rate ceilings permitted thrifts to acquire a record amount of new funds. Deposit balances at FSLIC-insured institutions during 1984 grew by a record $111.2 billion, slightly more than the $110.2 billion rise a year earlier. Moreover, industry borrowings (both from the Federal Home Loan Banks and from other lenders) rose by $38.6 billion over the same period, also a record. About $35.6 billion, or 32% of deposit growth, was in accounts of $100,000 or more. Broker-originated deposits contributed about $14.2 billion last year. Both jumbo accounts and broker-originated deposits tend to be more volatile and usually higher-cost than retail deposits.

Last year's record growth in deposits and borrowings fueled a record $165.6 billion in mortgage loan closings by thrifts, 20% more than in 1983. Thrifts increased their share of permanent loans originated on 1-4 family property to 50% from 42% in 1983, only slightly less than the peak share attained in the mid-1970s. (See Chart 3). Approximately 68% of all conventional mortgages made by FSLIC-insured institutions for purchasing single-family homes last year were variable-rate loans, a far larger share than the 42% in 1983. This shift from fixed-rate to variable-rate lending was of very major significance in the industry's attempt to improve its asset-liability match. FSLIC-insured institutions continued to increase their holding of non-mortgage loans newly authorized by recent legislation, but at the end of September such loans still accounted for only 2.5 percent of assets.

Indicative of the reduction in credit standards at some institutions, the volume of sub-standard mortgage loans and foreclosed real estate held by FSLIC-insured thrifts rose 34% last year to $6.2 billion, or 0.6 percent of assets. Mortgage loans with payments 60-days or more delinquent rose 25% to $13.7 billion, or 1.4 percent of assets.

The number of FSLIC-insured institutions declined by only 16 (to 3,167) in 1984, the smallest drop since 1979. This represented a contrast to the large declines in other recent years, especially 1981 and 1982 when poor earnings made many mergers imperative. (See Chart 4). Last year's sharp slowdown in the decline in the number of FSLIC-insured institutions reflected both fewer mergers and an increase in new charters stimulated by broader investment powers now available to thrifts.

III. EXAMINATION AND SUPERVISORY ACTIVITIES OF OES

1. Staffing Needs

We have learned that greater use of technology does not automatically decrease our staffing requirements for field examiners. In fact, in the light of recent experience, we are facing a potentially acute shortage of examiners. Our major concern is a growing asset quality problem among troubled savings institutions. Our computer assisted examination process will permit us to track an institution's financial condition more effectively. However, it was not intended to permit examiners to review the quality of an association's assets -- that has to be done on-site at the institution by both examiners and qualified Board appraisers. Increased examination staffing, including both field examiners, appraisal and other specialists, is needed to monitor and address the risks which these severe asset quality problems create for the FSLIC Fund.

During FY 84, the OES expended approximately 13,200 staff days (60 staff years) on activities that are both necessary and beyond the normal workload for examination processes. This included 3,500 staff days for conservatorships, 3,900 staff days for takeovers or on-site surveillance of problem institutions, 1400 staff days for receiverships, 2,850 staff days for special investigations, and 1400 staff days for preparation of bidders' packages for the FSLIC. It is our expectation that these exceptional demands upon the examining staff will continue into the foreseeable future.

Consequently, the Board requested OMB authorization for additional field-examiner positions for FY 86 to meet these extraordinary demands. The acute need for these extra positions is reflected by the fact that the Board now averages about five institutions per examiner -- much more than the approximately four institutions per examiner of the three banking agencies taken together. In addition, the Board requested OMB permission to hire additional staff appraisers because of the increasing and often unsuccessful efforts of many institutions to achieve a portfolio mix that balances interest-rate and credit risk. The nine appraisers currently on the Bank Board's staff are simply not enough to meet, even minimally, the increasing workload. The pressures to manage interest-rate-risk exposure have caused many associations to invest in loans that carry a higher rate of return and shorter maturities. However, the emerging problem is that the underwriting on many of these loans has been questionable at best, and the validity of appraisals is a key element in the underwriting process. The review and correction of questionable appraisals by professional staff appraisers must be sharply accelerated because credit losses suffered by insolvent associations are far more costly to the FSLIC than interest-rate-spread support agreements.

Equally important to the staffing needs issue, a number of states have enacted new, non-traditional (e.g. non-housing-related) powers for state-chartered institutions. Thus, we must deal not only with rapid and poor quality asset growth but with an increasingly complex environment in which funds are being deployed in unaccustomed ways. On-site examination is essential to assure prudent use of these new authorities. Therefore, another important reason the Board needs to add field examiners is to conduct such on-site examination for state-chartered institutions which are insured by the FSLIC. Moreover, I maintain that states which enlarge powers for state-chartered thrifts beyond those permitted federally-chartered thrifts, or which are chartering more thrifts, need to proportionally increase their own regulatory and examining efforts.

Finally, we are also seriously understaffed with respect to examination of data processing operations in savings institutions. This is an area in which the Board lags behind the other federal financial regulatory agencies. Although the Board has designed a program to build expertise in this area, the fact is that the Board has no field personnel at the present time capable of carrying out an examination of associations' electronic data processing operations.

2. House Committee on Government Operations' Findings and Directives

The problems we face with examiners are not entirely related to our critical understaffing. Rather the problems are more far reaching and may require legislative changes. As you are aware, the Bank Board is severely constrained by the staffing, administrative and budgetary requirements of the Executive branch agencies, including OMB, the Office of Personnel Management and General Services Administration. As a result, we are not able to offer pay, benefits or travel expenses comparable to the other financial supervisory agencies and, therefore, face an acute problem of high turnover. I would like for a moment to read an excerpt from the findings of the Barnard Committee in its report on Criminal Misconduct and Insiders Abuse, H.R. Rep. No. 98-1137 at 60:

> "In addition, several of the agencies acknowledge that they have problems with high turnover among examiners. The FHLBB, in particular, has indicated to the subcommittee that its turnover rate for field examiners was 18 percent in 1983, significantly higher than the other agencies.
>
> "Many field examiners are hired as young college graduates with accounting degrees who find that working for several years as an examiner is good experience to learn about the banking industry. They often then leave to work for a financial institution, perhaps one

> that they have previously examined. A number of examiners interviewed by the subcommittee staff expressed the view that the inexperience of your examiners is one major reason insider abuse goes undetected or unreported. These young examiners, they say, can often be intimidated by the imposing and powerful bank officials with whom they come in contact.
>
> "One reason for high turnover is that the salaries paid to junior-level examiners are lower than similar career opportunities in the private sector. According to the FHLBB, 'unfortunately, the primary reason that examiners leave the Bank Board is pursuit of a higher salary, and our ability to respond to this particular subject is restricted by the federal government personnel rules and payroll schedules.'
>
> "The FHLBB attributes a part of its unusually high attrition rate to the lower salaries that their examiners receive, as compared to those paid by the other banking agencies. Statistics provided to the subcommittee by the agencies tend to confirm the FHLBB's claim that its examiners are paid less. The four agencies report that their mid-level or average field examining staff salaries are as follows: (1) FHLBB-$24,775 (GS-10.22), (2) OCC-$30,764, (3) FDIC-$32,585 (GS-12, Step 3), and (4) Fed-$37,900 (includes regional allowances). Although these figures provide only a rough comparison, it seems clear that FHLBB examiners are paid considerably less than those of the other agencies."

An equally significant problem with our examination process arises because our examiners are under the direct authority of the Bank Board, while the supervisory operation in each district is directed by the Principal Supervisory Agent who is typically the president of the district Federal Home Loan Bank. As a result, the fact finders (examiners) are not directly supervised by and do not report to, those responsible for taking corrective action. The Barnard Committee, in its report on the failure of Empire Savings and Loan Association, H.R. Rep. No. 98-953 at 13, discussed in detail the role such lack of communication and coordination played in the Empire failure, and specifically directed the Bank Board to "examine the impact this administrative split has on effective management and take such action or make such recommendations to Congress as may be necessary to remedy any problems which such an examination may reveal." (Emphasis added).

3. System Restructuring Initiatives

In response to the recommendations of the Barnard Committee, we have requested the support of OMB for our efforts to obtain the necessary Congressional approval for legislation to remove our field examiners and other OES field nonadministrative employees from the appropriations process. Such a move would give our examiners equivalent status to that provided to FDIC employees. At a minimum, I would like to enlist your concurrence and support for this action. I understand that the matter is currently pending at OMB.

Equally important and concurrent with this request to OMB, I established a task force to study the coordination problem and to make recommendations on restructuring the examination and supervisory functions in the 12 Federal Home Loan Bank districts. The Task Force is seriously considering recommending to the Board that it remove the examination staff from the appropriations process and integrate it into the Federal Home Loan Bank system, with examiners reporting directly to the Principal Supervisory Agent in each district. The 12 Principal Supervisory Agents report directly to, and are accountable to, the Federal Home Loan Bank Board. This option could help to resolve existing difficulties associated with the current structural split of authority while preserving the integrity of the independent examination function. Further, it could be accomplished with no addition, indeed a commensurate reduction, in the federal work force and without a legislative change.

A new examination and supervisory structure will help the FHLBank system to detect emerging problems much more quickly, and to act to correct them before the FSLIC Fund is exposed to losses. Not only will this help preserve individual thrifts, but decision-making at the district and Board levels will be of higher quality, accuracy, and reliability.

4. Improvements in the Examination Process

a. Review of Examination Activities

In the Board's statement on the FY 84 budget request, I described a pilot examination program designed to improve the quality and timeliness of our examination process. The results of that pilot program were positive and very encouraging. Accordingly, during October 1983, we expanded the activity to a full-scale test in the pilot district and three additional districts. We accomplished further expansion to an additional four districts by March 30, 1984, and by June 30, 1984, all twelve districts were operating under the new program.

The revised examination process relies heavily on computer assisted reviews of associations' financial data, permitting in-depth financial analysis now done on-site in centralized locations. Through greater use of technology and more focused use of examiners, the Board's examination process will be able to identify more quickly and effectively emerging financial problems at savings institutions. Equally important, Board examiners will be able to monitor, virtually continuously, the success of associations in restructuring their balance sheets by adopting Garn-St Germain Act powers.

b. Use of Microcomputers

During the latter part of 1983, the Board acquired and installed microcomputers in all of our 12 district offices and 29 area offices and in the Washington office of the Office of

Examinations and Supervision. By providing field offices with the relevant data, our staff will be able to perform standard tests, and to devise and use special tests when circumstances dictate a need to do so.

c. Examiner Training

We continue to place training emphasis on updating the staff in new technical areas affecting the Bank Board's examination responsibilities. The OES' current curriculum consists of six courses, four of which are mandatory for all new examiners during their first three years of employment. The process of training all examiners in the areas of commercial lending, financial instruments, as well as the futures and options markets, is progressing at a rapid pace. We have further enhanced the area of asset and liability management training through interval training and contracting with academic experts for advanced training of senior examiners.

We began in FY 84 and are continuing this year a concerted effort to revise and update our training programs to reflect recent changes that have an impact on examination and supervision of the industry. The OES New Examiner Training School is in the midst of a project in which we will reevaluate its objective and develop state-of-the-art materials and lesson plans that will reflect the advances incorporated in the examination process including the Bank Board's Financial Viability Monitoring System.

At the same time, OES is revising the senior finance school to introduce more sophisticated financial analysis and has already completed changes to the interest-rate-spread management section of this school. The Real Estate Appraisal School and Business Lending School are also undergoing changes that will make them better training vehicles for today's examination concerns. Both schools will have new, comprehensive case studies to provide participants with work-related problems to reinforce the learning process. The Financial Instruments, Futures & Options training is being revised to include new case studies with increased attention on options and mortgage-backed security transactions.

IV. STATUS OF THE FSLIC FUND

The difficult and fragile transition which thrifts have been facing has had profound implications for the FSLIC Fund. The Fund is under enormous stress. Absent strong remedial action, we foresee additional strains resulting from asset quality problems and unlimited access to funds, including brokered money.

FSLIC reserves protect a deposit base that, as of December 31, 1984, stood at more than $785 billion. As I stated previously, deposits in calendar year ("CY") 1984 grew by a record amount, rising $111.2 billion by year end. By contrast, the book value of the FSLIC's reserves declined from $6.4 billion as of December 31, 1983 to slightly less than $6.0 billion at present. This was the first time in its history that FSLIC book reserves actually declined. This decrease results from the increased demand placed on the Fund stemming from a growing number of severe asset quality problems at some FSLIC-insured institutions.

The book value of FSLIC reserves represents a ratio of FSLIC reserves to insured deposits which has been rapidly approaching an historic low point. Historically, the reserve ratio (total FSLIC book reserves as a percentage of total deposits) has averaged 1.2%, peaking at 2.12% in 1970. Since then, the ratio has declined sharply, falling from 0.92% at the end of the third quarter of 1984 to 0.76% at year's end. That ratio would significantly decrease if projected losses to the Fund's reserves were subtracted from FSLIC book reserves at the end of 1984.

The current reserve ratio is steadily approaching the point which prompted Congress in 1962 to impose an additional insurance premium (secondary reserve) on FSLIC-insured institutions. However, in 1962 the industry's ratio of real net worth to assets was 7.04 percent. This contrasts sharply to the current regulatory net worth ratio of 3.88 percent.

The devastating effects of interest rate spirals over the last several years were the direct result of the asset-liability mismatches that pervaded the thrift industry. Industry managers are still in the early stages of restructuring their portfolios — with the vital supplements provided by the Garn-St Germain Act -- to avoid the huge maturity mismatches which nearly drove the industry to disaster in 1981-1982. And while the health of the industry has, over the past two years, has shown relative improvement over the previous two year period, this improvement is primarily the result of falling interest rates in conjunction with accounting devices which have exaggerated actual operating profits. Furthermore, as noted earlier, despite the decrease in rates the fact remains that roughly a third of all FSLIC-insured institutions are still in the red. A significant upward change in interest rates could again subject the majority of thrifts to substantial losses, and the ability of the thrift industry in general — and the FSLIC — to absorb such losses would be extremely difficult, depending on the magnitude of such increases.

Even without a significant increase in interest rates, the emerging problems now confronted by the FSLIC as a result of the growth of federally insured deposits and the disturbing upward trend in asset quality problems at some institutions make it certain that the current ratio to insured deposits of both book FSLIC reserves — and effective, usable reserves of the Fund — will continue to drop in the future, absent remedial action. Since December 31, 1982, almost all income received by the FSLIC has been expended to solve problem cases. But during the same period, total deposits have increased from $501 billion in 1980 to $785 billion on December 31, 1984. We believe that current reserves are adequate to cover necessary cash expenditures for liquidations and supervisory mergers currently projected for 1985. We also believe, however, that loss reserves established for payment of insurance (liquidations) and future commitments on assisted mergers or acquisitions will significantly impact the Fund's reserves. While it is very difficult to project with precision FSLIC reserve levels at the end of 1985, we would be derelict in our duties as managers of the FSLIC on your behalf if we failed to inform you at this time that our caseload trends do suggest the possibility that such levels could be diminished significantly, both in 1985, and again in 1986 as a result.

As a result of the projected impact on FSLIC's reserves, the Federal Home Loan Bank Board assessed a special premium of one thirty-second of one percent of deposits on individual savings institutions insured by the FSLIC on February 22, 1985, payable on March 31, 1985. The need to strengthen the real, and not just the perceived, levels of adequacy of the fund was the compelling reason for the Board's decision.

This assessment will immediately add approximately $250 million to FSLIC's insurance fund. Furthermore the Bank Board also is considering the assessment of further additional premiums in amounts equal to one thirty-second of one percent on a quarterly basis during 1985, should it become necessary.

The Board also expressed its intention to consider making additional such assessments in subsequent quarters of the year — but to forgive all of them if legislation is enacted by September 1, 1985, to provide for the long-term replenishment of the resources of the insurance corporation.

Forgiveness could take the form of a refund or a credit against any deposits or other payment due to the corporation.

V. FSLIC SUPERVISORY ACTIVITIES

In CY 1982 and CY 1983, a significant majority of FSLIC problem cases involved interest rate spread difficulties. Since then, severe asset quality problems have emerged as the dominant factor. In fact, of the 27 cases resolved by the FSLIC during CY 1984, 19 were asset quality problems while only 8 were interest rate spread problems. Such asset quality cases are more complex and significantly more expensive to resolve. This is especially true because in recent months serious potential acquirers of severely troubled institutions have not come forward. We believe this has resulted for several key reasons. First, potential acquirers have shown themselves to be unwilling for the most part to assume the risk of large losses on bad assets. Second, potential acquirers which might otherwise have had a serious interest in gaining interstate franchise rights through such acquisitions are now applying for, and receiving, nonbank bank franchises in many states, thus eliminating any real interest in, or incentive, to help the FSLIC resolve such cases through acquisition.

As a result, the extent of the problems in poorly managed institutions and the potential for significant hidden contingent liabilities may force the FSLIC to place many of these institutions with asset quality problems into liquidating receiverships. This results in much higher costs to the FSLIC and requires a larger staff to administer and oversee the management and disposition of the acquired assets than does an assisted merger. Moreover, the inability to deal with these problems in a timely fashion because of an insufficient level of staff will prove to be substantially more costly than the cost of the additional staff.

The FSLIC requested OMB to authorize additional positions for FY 85 and FY 86. This is critical for the FSLIC to even begin to manage its dramatically escalating caseload. Increased staffing is crucial because of the severe asset quality problems involving substantially larger institutions which now dominate the FSLIC caseload. The alternative to funding these additional positions would constitute a much greater cost to the insurance fund because of the FSLIC's inability to administer and liquidate assets on a timely basis. As reflected in the President's 1986 Budget, OMB granted a portion of this request. In addition, the FSLIC has requested increased flexibility with regard to personnel similar to that enjoyed by our fellow federal financial regulators. Such flexibility is necessary to provide adequate protection for the FSLIC Fund at a time when liquidations have dramatically increased. Similar to the OES request for relief in the area, the matter is currently pending at OMB.

The FSLIC increased its efforts in 1984 to prevent thrift institution defaults. For CY 1984, FSLIC processed 27 cases with assets of $5.88 billion and a net present value cost of approximately $700 million. This included resolving 18 cases with assets of $4.3 billion through the assisted acquisition process. The net present value cost of these cases is estimated at $250 million, spread over a 5 to 10 year period. The FSLIC also placed 9 institutions with assets of $1.5 billion into receivership. The cost to pay insurance on these cases is estimated to be $450 million. In addition, during 1984, FSLIC created a de novo institution for the first time as a means of dealing with the simultaneous closing of 5 insured institutions in Tennessee.

As a result of the severe asset quality problems that surfaced in CY 1983 and CY 1984, the FSLIC was unable to find solutions to 15 insolvent institutions (6 in CY 1983 and 9 in CY 1984) with assets of $1.9 billion. The FSLIC was required to place these 15 institutions in receivership for purposes of liquidation. Prior to CY 1983, the total number of institutions liquidated by the FSLIC throughout its entire 50 year history was only 15.

In connection with liquidations that occurred in 1984, savings deposits of more than $840 million, representing 39,288 insured accounts, were immediately transferred to other FSLIC-insured institutions. The transfer of insured accounts in this manner allows insured depositors access to their accounts with minimum disruption and also enables the FSLIC to obtain a premium from the institution assuming liability for the accounts. During 1984, the FSLIC obtained premiums of more than $17.3 million on the transfer of insured accounts to FSLIC-insured institutions.

Although the FSLIC has developed more efficient and cost effective techniques and strategies for handling such receiverships, nonetheless, in 1983 and 1984, it had to use more than $1.5 billion of its resources to settle insurance on these institutions' accounts. Another half billion dollars is projected to be consumed by the losses associated with the liquidation of these institutions. This total projected cost represents nearly 50% of these institutions' total assets. By contrast, in 1982, when earnings spread problems predominated the caseload, the cost ratio of resolving 77 insolvencies was only 4%, on assets of $28 billion.

Asset quality problems also tend to occur on short notice, especially where the institution misuses easy access to brokered deposits and other funds to grow faster than sound lending practices allow. Unexpected asset quality failure leaves the FSLIC with a large operating entity and hundreds of millions of dollars of assets to manage, assess, and liquidate. The number of liquidating receiverships has increased 100% over the past 24 months, creating an urgent need for an upgraded and expanded marketing and management program of FSLIC receivership assets.

VI. LEGISLATIVE DEVELOPMENTS

As I have stated on many occasions, the enactment of the Garn-St Germain Act of 1982 ("Act") provided the most critical tool given the thrift industry in terms of providing long-overdue flexibility and the ability to respond to rapidly changing economic conditions. The Act provided federal thrifts with sorely needed, albeit limited, new lending authorities to ensure thrifts the ability to generate contracyclical income, market-rate deposit instruments to ensure efficient access to consumer funds, and net worth certificates to provide assistance in the short run to ailing institutions. The Act expressly recognized that these new powers were critical to revitalize and strengthen thrifts' ability to continue their preeminent and unique home-finance function.

Since the passage of the Garn-St Germain Act, Congress has considered a variety of proposals to reform additional aspects of the current structure of the financial services industry. Each of these proposals contained a provision to close the nonbank bank loophole in some form. The Board has been gravely concerned for some time now about the nonbank bank phenomenon which has effectively removed current geographic limits on bank expansion. As I also noted earlier, the FSLIC Fund is facing unprecedented strains resulting from an increasing number of bad asset-related cases. The proliferation of nonbank banks has reduced, indeed almost eliminated, the incentive for banks, and bank holding companies to obtain interstate rights — and for other corporations to enter the financial services arena -- through acquisition of weakened thrifts. The effect on the FSLIC has been, and will continue to be absolutely devastating, unless and until Congress appropriately closes the nonbank bank loophole, once and for all.

The fact is, until early 1984, the FSLIC was highly successful in preventing liquidations by arranging acquisitions of weak or failing institutions by a variety of acquirers. These inter-industry acquisitions, which were expressly authorized by the Garn-St Germain Act as a means of protecting the FSLIC's resources, were attractive because they packaged otherwise unattractive institutions with institutions having operating rights in attractive geographic areas. As a result of the nonbank bank loophole, the former pools of serious bidders on which the FSLIC relied to cut its losses through acquisition of severely troubled thrifts are now almost non-existent. Given the dissipation of FSLIC reserves which is a major direct consequence of the government's current policy with respect to nonbank bank proliferation, the Federal Home Loan Bank Board continues to urge the Congress to act swiftly and decisively to close this gaping loophole to help prevent further catastrophic effects on the reserves of the FSLIC.

I would respectfully remind the Congress that the FSLIC represents a fundamental, and indeed critical, structural leg of the nation's federal deposit insurance system which was fashioned to instill and maintain public confidence in our depository institutions, whether savings institutions or commercial banks.

During 1984, Congress also considered a number of proposals that addressed the broader issues affecting the current regulatory structure for banks and thrifts, but did not pass a bill. While the Bank Board generally supported a broad restructuring bill, I also expressed reservations about various provisions of the proposals under consideration. In my view, any legislation which reforms the current regulatory structure for insured depository institutions must be guided by 4 basic principles. First, such legislation must acknowledge the very basic differences, in statutory authority and function, between thrifts and banks. Second, any reform proposal must preserve and enhance, not reduce, the attractiveness of the thrift charter, to encourage the flow of new capital into the industry. Third, any reform proposal should reaffirm the long standing congressional commitment to preserve an independent regulatory and deposit insurance framework for housing-oriented lenders, with regulatory power over such lenders and their holding companies vested exclusively in the Board. Fourth, an express ban on combinations of thrifts with underwriters and marketmakers of general corporate securities is vital to preserve thrifts' ability to carryout their housing mission and to prevent unique risks and potential conflicts of interest which could result from such affiliations.

I agree with the basic thrust of comments made by John Whitehead, the distinguished former senior partner of Goldman, Sachs and Company in a recent Washington Post interview (February 10, 1985). He said:

> "I believe the principles behind the Glass-Steagall Act were valid when enacted and are valid today, and I hope that Congress defines an appropriate dividing line between the regulated functions of commercial banking and the more unregulated investment banking functions.
>
> "As long as commercial banks have low-cost, federally guaranteed deposits, and access to borrow at the Fed window, it's reasonable to expect those banks to restrict themselves to reasonably safe activities.

> "If a commercial bank chooses to give up those special benefits, it seems to me they should be free to compete in the broader arena and go into any kind of business they want to, including investment banking.
>
> "Let each bank decide whether it prefers to be a regulated bank, entitled to special benefits like deposit insurance and better tax treatment, but not entitled to go into investment banking activities, or an unregulated bank, which would not have those special benefits and which could go into investment banking or insurance or any other activities."

I strongly suspect that Mr. Whitehead also had thrifts in mind. I suspect you could substitute the word "thrift" for "commercial bank" and the word "Federal Home Loan Bank" for "Fed" and you would accurately convey Mr. Whitehead's position.

In May, 1984, I requested introduction of S. 2700 and H.R. 5739, companion bills which I believed would accomplish the four goals previously stated. These bills would have established a "thriftness" test requiring a portfolio commitment of at least 60% of assets in specific housing and housing-related investments and certain liquid assets in order to qualify an institution for Federal Home Loan Bank advances, FSLIC insurance, increased service corporation investment authority, out-of-state branching, and ownership by unitary savings and loan holding companies operating without activity restrictions.

The bills also would have authorized the Board to establish by rule classes of insured accounts, including brokered deposits, and to require institutions undertaking activities of a kind or to an extent not authorized for federal associations to make separate and additional contributions to the FSLIC insurance fund. In view of the high degree of risk associated with the use of brokered deposits — both because such funds tend to move quickly in and out of institutions and because the high rates needed to attract these funds may encourage institutions to undertake undue risk ventures — I remain firmly convinced that these deposits ought to be restricted. Similarly, I continue to believe that the additional risk generally associated with the nontraditional investment activities permitted many state-chartered thrift institutions indicates the need to assess higher supplemental insurance premiums, to the extent such activities are engaged in by such institutions, if they also meet the relevant "thriftness" test applied to them under law. The current account-based insurance premium structure actually forces institutions with investments in stable but lower yielding assets, such as home mortgages, to subsidize, effectively, those other institutions investing in generally more speculative and risky activities, such as wind farms, fast food franchises and equities.

Finally, the bills would have improved the authority of the Board to regulate holding companies and changes in control of insured institutions, including provisions which generally would have prohibited the acquisition of an insured institution by a company engaged in underwriting of or marketmaking in corporate equity and debt securities, and would have prohibited savings and loan holding companies and FSLIC-insured institutions from directly or indirectly engaging in such underwriting or marketmaking.

While Bank Board staff is currently updating and refining last year's legislative package before seeking reintroduction in this Congress, I would like to make some general observations on the Board's special concerns with legislative issues affecting the FSLIC.

Particularly in view of the alarming trend in more costly, asset-related cases, I am deeply concerned with the effect of the nonbank bank phenomenon on the FSLIC. The problem of spiraling costs resulting from such failures has been greatly exacerbated in recent months as the result of the nonbank bank phenomenon where there has been a veritable flood of applications by commercial banking entities and other organizations seeking to move through the gaping nonbank bank loophole to acquire interstate franchise rights.

The consequence of this proliferating movement of entities toward nonbank bank status has almost eliminated serious bidding pools of potential acquirers for severely troubled thrifts.

This is understandable in light of the ability of would-be nonbank banks to secure pervasive interstate franchise rights at very nominal cost.

And, while it is impossible to know precisely what effect this phenomenon is having on the FSLIC's ability to resolve severe thrift problem cases, the fact is that former potential bidders which were previously willing to at least negotiate seriously for interstate operating rights with the FSLIC — and thus help the insurance corporation cut its losses in such assisted transactions — have, for all practical purposes, disappeared.

Thus, one of the most important provisions provided for by the Garn-St Germain Act to help the FSLIC resolve cases at the lowest cost to the insurance corporation is no longer effectively operative because of the nonbank bank phenomenon.

While one may choose to argue the free-market merits of virtually unlimited nonbank bank interstate access, I believe this development is on the way to becoming catastrophic for the FSLIC fund.

Once again, I am compelled to say to you that the Federal Savings and Loan Insurance Corporation represents a fundamental, critical structural leg of the nation's deposit insurance system, which was designed by the Congress, itself, to instill, reinstill and maintain public confidence in America's financial system.

Failure to close the nonbank bank loophole can only have the effect of helping to cut the legs out from under the FSLIC and its ability to resolve problem cases at costs the FSLIC might at least better be able to bear.

I believe the failure to address this problem soon will impose on the insurance corporation the most costly solutions of all — liquidations — and therefore a severe drain on any level of insurance reserves we may have during the next several years, at least.

I have urged, and I will continue to urge, that the Congress deal with this problem — to close the nonbank bank loophole — expeditiously, once and for all.

In addition to our concern with the nonbank bank phenomenon, the Board strongly believes that further legislative action is needed to restore the depleted resources of the FSLIC. As I noted earlier, the Board recently acted to impose a special assessment on insured institutions to alleviate the most acute strains on the insurance fund.

However, it was also clear to us that even the exercise of our full authority to begin replenishing the real reserves of the FSLIC — that is to say, even a one-eighth of one percent special assessment spread out over a year — would not truly serve to provide for the long-term replenishment necessary to properly and adequately strengthen the resources of the insurance corporation.

For this reason the Board has set forth a number of legislative goals we believe should be achieved to appropriately increase the resources of the insurance fund and facilitate greater flexibility in the effective management of risk to the FSLIC.

Here are the eight general goals we believe would serve to significantly strengthen the fund, even though they are not necessarily intended to be specific conditions for the forgiveness of any special assessments.

1. The achievement of long-term capital adequacy of the FSLIC fund to ensure public confidence in the insurance corporation's ability to meet present and future obligations.

2. The need for a capital infusion from insured institutions to provide sufficient assets to meet the need to resolve FSLIC problem cases in an expeditious manner.

3. Ability of the FSLIC to require additional deposits or premium assessments from insured institutions in order to replenish the reserves of the insurance corporation to the extent they fall below acceptable levels.

4. We believe required payments from insured institutions should be structured to avoid a premature "expense" burden to institutions. That is to say, required payments should be structured so they will primarily be treated as a deposit, or investment in the FSLIC — to be "expensed" when the deposit, or investment that is paid out by the insurance corporation, or depleted by losses incurred by the FSLIC.

5. As I emphasized earlier, we believe the cost of the risk to the FSLIC should be allocated fairly. That is to say, those institutions which choose to engage in excessively risky activities should bear a higher proportion of FSLIC assessment than institutions not engaging in such activities.

6. We believe the FSLIC should be given explicit statutory authority to limit on a regulatory basis losses from excessive risktaking by the industry.

7. In our view, the FSLIC should not be required to insure all the activities of every company which designates itself a savings institution. We believe FSLIC insurance should be limited to those institutions which are principally engaged in housing finance and housing related activities.

8. We believe the FSLIC should have the authority to classify accounts and to insure only those which are appropriate for insurance by a federal agency. We believe deposits which are really equity investments should not be federally insured.

Those are the eight general legislative goals we have laid out which we believe would serve to appropriately increase the resources of the FSLIC and facilitate grater flexibility in the effective management of risk to the insurance corporation.

Several years ago, both houses of the Congress pledged the full faith and credit of the United States to stand behind the FSLIC so that no depositor can ever suffer the loss of funds placed in insured accounts.

However, we believe that any set of legislative goals should serve to preclude the possibility of ever resorting to the funds of the U.S. government, itself — that is to say, to American taxpayers.

We believe, that any set of legislative objectives should work to assure that the total cost of FSLIC insurance will always be borne by insured institutions themselves.

We at the Bank Board want to work closely with you in the Congress, the savings institutions industry and the Administration to achieve as quickly as possible the strengthening of the FSLIC — both in the short and long term so that the savings and loan system which has served our nation so well, for so long, can and will continue to remain the vital force for good in the land during the years to come.

VII. EQUAL EMPLOYMENT OPPORTUNITY EFFORTS

The Bank Board's hiring activity at the Headquarters level has been relatively limited since February, 1984, the date of the last budget hearings. We have, however, made progress in increasing the representation of minorities and women in the workforce. Of the 19 hires at the GS-9 level and above in our permanent staff, 36.8% were women and 15.7% were minorities. Of the 20 limited term positions established to handle the heavy workload associated with problems in the savings institutions industry, 30.7% were women and 11.5% were minorities. These figures are particularly encouraging since the majority of hires were made in the legal and financial occupations, where women and minorities have been historically underrepresented both at the Bank Board and in the general workforce.

During the past year, the Bank Board experienced turnover in excess of 17%. As a result, there was a slight decrease (4%) in the representation of women agencywide. We have, however, improved the representation of women in supervisory positions by 20% during this period so that 19% of the Bank Board's supervisors are women. Also, retention of minorities previously hired has been excellent and we have realized an improvement in minority representation in two important categories: the GS-13 through GS-15 level, and in supervisory positions. During 1984, the number of minorities occupying supervisory positions increased 10%. There are 5 females in senior management positions at the Office Director level or above, including a Board Member, the Executive Staff Director and the Deputy Executive Staff Director.

The Bank Board is continuing to increase its use of internal hiring procedures to fill higher level professional and administrative positions. Of the 22 higher level positions filled through internal procedures, 31.8% were females and 18.1% were minorities. The movement of internal employees into higher level positions has been the major reason behind the increased representation of minorities and women in supervisory positions.

Since 1981, the Bank Board has administered its own staffing program for our most populous occupational field, savings and loan examination. A major goal of the program was to increase minority and female representation through entry level hiring, and, through career progression, to increase minority and female representation at higher grade levels in future years. Hiring under this staffing program was active during the period since the last Budget hearings. Eligible female and minority candidates comprised 29% of the applicant pool and 27.1% of our 96 entry level hires were females and minorities. From the inception of the staffing program in 1981, minority representation in examiner positions has increased 71.7%, from 10.6% in 1981 to our current level of 18.2%. During this same period, female representation has increased 63%, from 13.8% in 1981, to a current level of 22.5%. We attribute this success to our extensive targeted recruitment activities at minority colleges, universities and organizations nationwide.

During the last year, the Bank Board has also increased minority and female representation in our examiner occupation at grade levels 13 through 15. Minority representation increased from 3.8% to a current figure of 4.0%, and female representation increased from 1.6% to a current figure of 3.0%. I am particularly pleased that we are narrowing the gap between average grade of white males, and those of females and minorities, and I am confident that our progress will continue in increasing minority and female representation in supervisory and managerial positions.

Additionally, the Bank Board's Upward Mobility Program was very active during 1984. Out of 6 targeted administrative and professional positions advertised, 3 have been filled with females. Candidates for the 3 remaining positions are currently being interviewed and we expect selections on these in the near future. We are continuing our emphasis on filling vacant positions, where feasible, under this program.

Although budget restrictions have significantly affected our hiring activity in 1984, we focused an increased emphasis on the recruitment of minorities and women. For example, onsite recruitment visits were made at 29 colleges and universities, of which 21 were at minority schools or schools that had a high student enrollment of minorities and females. Through our recruitment on college campuses we reached 520 students. Our participation in 10 conferences sponsored by nationally recognized civil rights organizations enabled us to provide over 3600 individuals with literature on employment opportunities at the Bank Board and over 700 individuals with savings and loan examiner application packets. We have received over 100 resumes and applications from advertisement in minority publications that are distributed nationwide.

Also as a part of our community outreach activities, we began a partnership with Cardozo High School here in Washington, under the President's Partnerships-in-Education Program. Employees at the Bank Board have volunteered to serve as guest instructors for the school's business department and as tutors in a wide range of subjects. In addition, students from other District high schools currently hold 19 part-time positions at the agency through the work-study program for economically disadvantaged students and we anticipate offering many of these employees full-time positions after graduation.

Even though budget constraints will be a significant factor affecting hiring in 1985, we expect to continue our aggressive and vigorous targeted recruitment activities at minority colleges, universities, organizations, and in publications nationwide, in order to increase the number of minority and female candidates in our pool of eligible candidates for all occupational fields.

VIII. CONCLUSION

In summary, the thrift industry, generally and as a whole, continues to recover, slowly, from the historic losses brought about by inflation and severe high short-term interest rates. However, such recovery will continue to be subject to the pressures of significant undercapitalization and the risks present in a recently deregulated environment. These problems, in turn, are imposing unprecedented strains on the FSLIC Fund.

We at the Bank Board are devoting our energies to helping the industry find renewed health, so that it can maintain and expand its commitment to home ownership in America, while at the same time protecting the insurance fund from undue exposure to risk. Unfortunately, we remain severely understaffed. I hope you will assist us in our important mission by providing the

Board with sufficient budget flexibility — and seek to fully understand the need for structural elbowroom — so we can deal effectively with the critical situation facing the industry today.

This concludes my prepared statement. I would note that this statement is not subject to clearance through the OMB and therefore represents the views of the Bank Board but not necessarily the Administration.

Thank you very much. I will be pleased to answer any questions.

CHART 1
NET RETURN ON ASSETS OF FSLIC-INSURED INSTITUTIONS
(ANNUAL RATE)

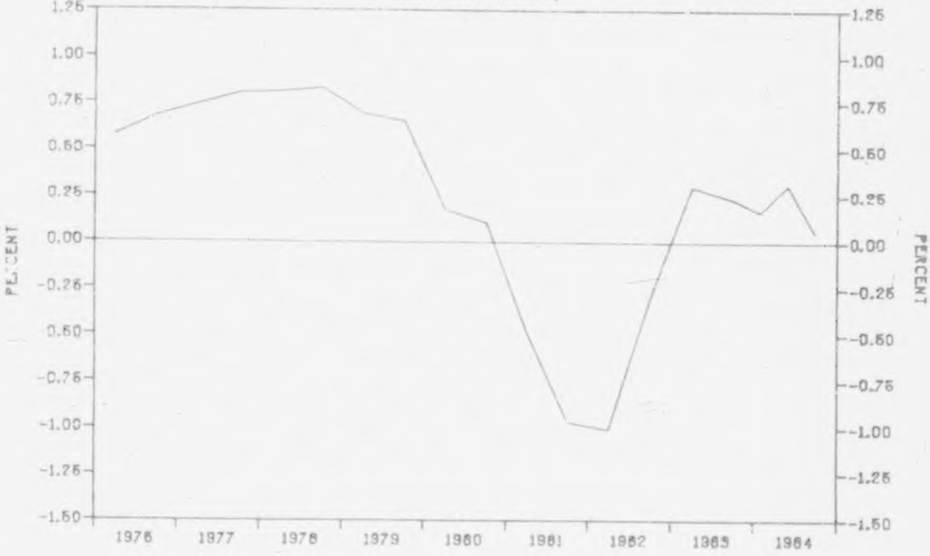


CHART 2

TOTAL REGULATORY NET WORTH / LIABILITIES
FSLIC INSURED INSTITUTIONS

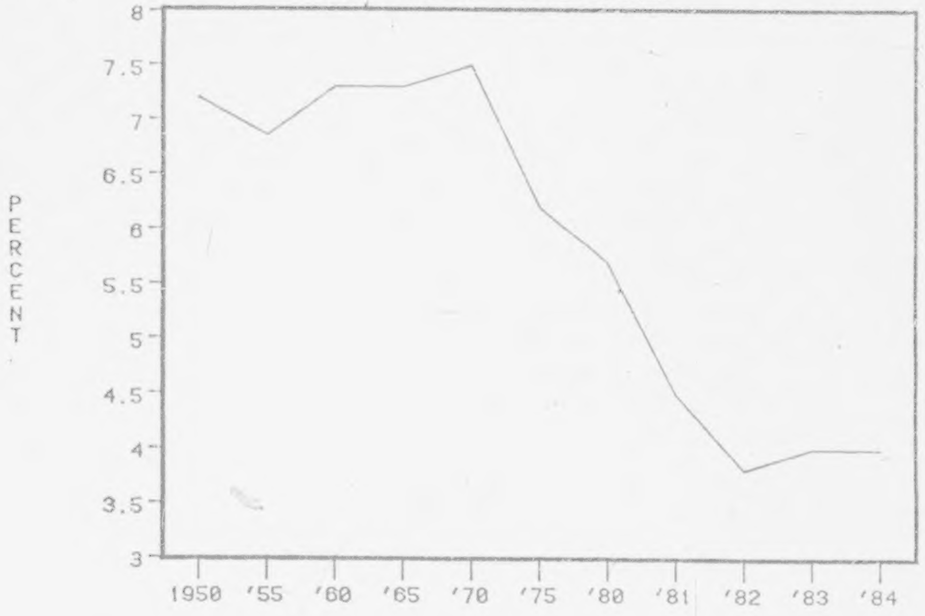
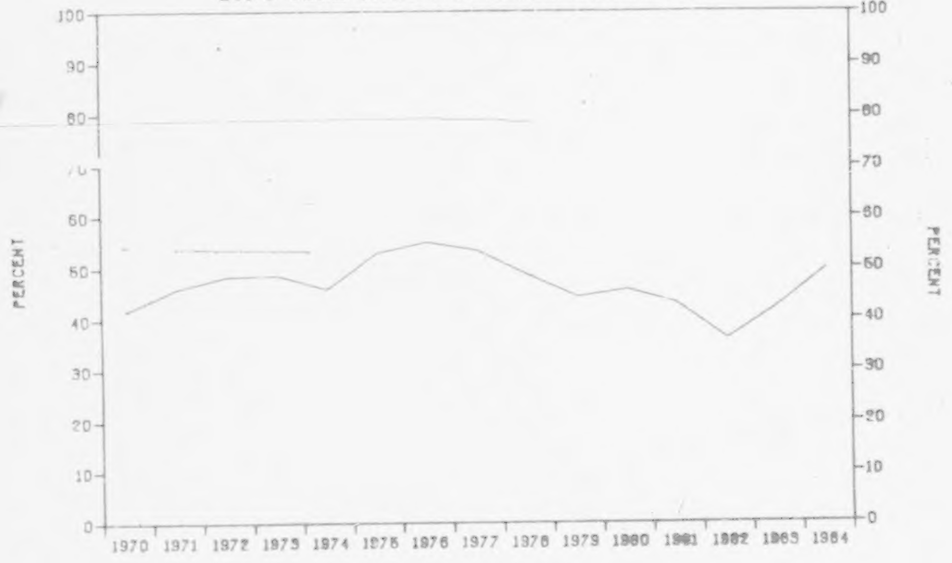
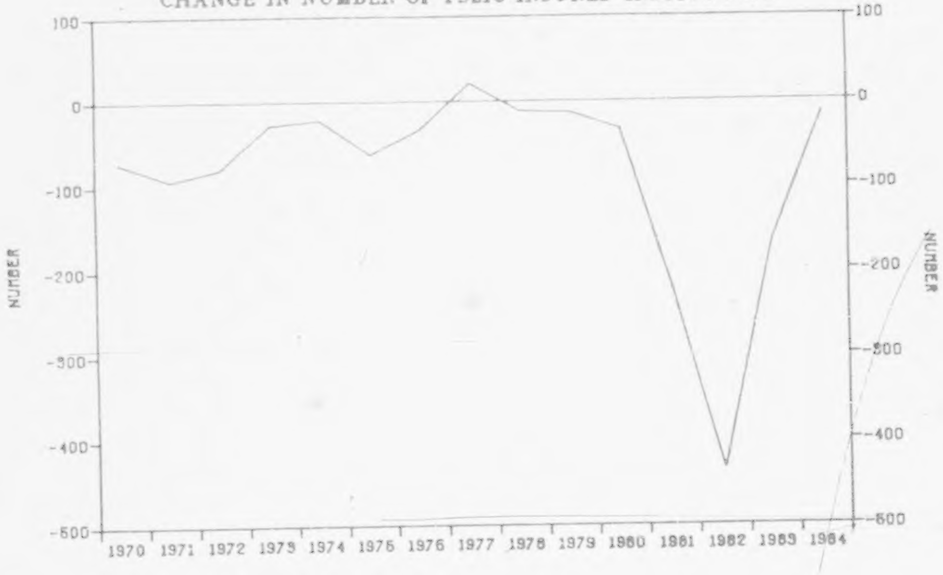


CHART 3
FSLIC-INSURED THRIFT SHARE OF LONG-TERM HOME MORTGAGE ORIGINATIONS



*NINE MONTHS DATA IN 1984

CHART 4
CHANGE IN NUMBER OF FSLIC-INSURED INSTITUTONS



INTRODUCTION OF ASSOCIATES

Mr. GRAY. Thank you very much.

Mr. Chairman, before I begin, if I may, I would like to introduce those with me. Dennis Pittman, who is our Budget Officer; Eric Hemel, Director of the Office of Policy and Economic Research; Norman Raiden, General Counsel; Shannon Fairbanks, Chief of Staff; my colleague, Mary Grigsby; William Schilling, who is Director of the Office of Examinations and Supervision; and Peter Stearns, Director, Office of FSLIC.

OPENING STATEMENT

I do appreciate the opportunity to appear before you to present the fiscal year 1986 budget request for the Federal Home Loan Bank Board. That request of course is detailed in the written statements and materials that we have submitted to the subcommittee. My written statement, including the complete and condensed versions, speaks for itself.

However, there are two areas in which I would like to speak and to emphasize in my opening remarks.

STATUS OF THE FSLIC FUND

The first relates to increasing and serious strains on the FSLIC fund. One of the Board's principal responsibilities is the governance of the Federal Savings and Loan Insurance Corporation. In other words, we are the operators of an insurance company.

This insurance company represents a fundamental, critical leg of the Nation's Federal Deposit Insurance System. The maintenance of its viability, indeed its credibility, is essential if savings institutions are to successfully transact business with the public.

The Insurance Corporation was originally fashioned to operate in a highly regulated and, for that matter, a highly restrictive environment for thrift institutions.

With the advent of deregulation, in which federally chartered savings institutions were accorded new and significantly greater operating authorities by the Garn-St Germain Depository Institutions Act of 1982, and in which some States have granted State-chartered institutions operating authorities which go far beyond the limits of Garn-St Germain Act, the ability to underwrite the risk the Insurance Corporation must bear has become far more difficult.

As a result, the strains on the FSLIC's ability to bear the financial burden of increasing losses when insured institutions become hopelessly insolvent are drawing down the book reserves and the effective usable reserves of the fund at a quickening pace.

Many of the failures, and projected failures, are, and will be, far more costly for the FSLIC to resolve. Many are the direct result of investments and poorly underwritten loans which have gone sour. They translate into bad assets which have been fueled by the rapid growth of high-priced liabilities, instantaneously accessed in the marketplace. These funds have been accessed and invested very quickly and, in too many cases, the leveraging of these funds has been excessive by prudent operating standards.

This very heavy leveraging on minimal or no real capital and the rush to invest the funds in the absence of prudent underwriting—where the real risk of loss must be borne by the reserves of the FSLIC—has produced a serious increase in the current and projected caseload of the Insurance Corporation.

Further, because such cases are characterized by poor—if not very poor—asset quality, they are becoming increasingly costly for the FSLIC to resolve because of higher liquidation payouts and higher assistance costs to the Fund.

This state of affairs is highly exacerbated by the inability of the FSLIC to attract serious acquirers of such institutions. Because of the rush to acquire interstate operating rights through the gaping nonbank bank loophole, it is understandable that former potential acquirers which previously sought ownership of these kinds of thrifts in order to gain depository institution franchise rights in other States are no longer seriously interested in acquiring our seriously troubled institutions. And while one may choose to argue the free-market merits of virtually unlimited nonbank interstate access, the fact is, the effect of this phenomenon on the FSLIC, and its ability to resolve the kinds of cases I have referred to, is having an adverse impact on the fund.

I continue to urge the closure of the nonbank loophole, once and for all.

Senator GARN. Mr. Gray, I will interrupt at this point to interject. As you well know, with Senator Proxmire's support, we passed the bill in the Senate Banking Committee closing that loophole tightly, thoroughly back in July 1, 1983. It passed the Senate on an 89-to-5 vote last September. It was due to a refusal of the House of Representatives to go to conference that that loophole has not been closed.

Mr. GRAY. Your message is very well taken and we thank you and those in the Senate for the passage of that bill last year in that regard.

NEW REGULATIONS

As you know, the Bank Board recently adopted final rules which are intended to help us better correlate the pace of growth at thrift institutions to their net worth, and to institute supervisory review thresholds at certain stages of growth and direct investments in real estate and equities.

These rules, we believe, represent, in a certain sense, underwriting standards for the FSLIC itself. That is to say, for the first time, our supervisory agents will have the opportunity—in advance—to review the correlation of growth to net worth and direct investment projects at certain threshold levels of such investment before they are permitted to proceed.

The weight of our evidence indicates that excessive growth and direct investments can, in certain cases, be unduly risky for an institution, and therefore, to the FSLIC.

The main role of supervision and examination in the Bank Board's regulatory process is to achieve safety and soundness, both for the institutions and for the FSLIC.

EXAMINER WORK FORCE

Deregulation, itself, makes effective examination and supervision imperative. These functions serve as the first line of defense for the FSLIC. These functions serve, as I say, in that very important capacity and, yet, the fact is, we have an inadequate number of well trained examiners in our system to do the job.

Turnover rates within our examiner force are high. Entry level salaries are low, lower than those of our sister financial agencies. Attracting and retaining qualified examiners is difficult. Often, bright young examiners are hired away within several years by thrift institution managements themselves.

Yet the function of the examiner in today's far more sophisticated, deregulated financial environment, is more crucial than ever to our job of spotting problems early enough so that corrective action may be taken by supervisory agents before problems mount and ultimately become very costly disasters for the FSLIC.

Further, the House Committee on Government Operations, in its report last year on the failure of Empire Savings of Mesquite, TX, discovered structural deficiencies in the examination/supervision framework of the Federal Home Loan Bank System.

As you know, examiners report up through the Bank Board staff in Washington. Supervisory agents also report to the Bank Board, but they operate in a wholly different organization and are funded by the Federal Home Loan Banks directly.

The House Government Operations Committee report found problems inherent in this administrative split and specifically directed the Bank Board to examine the impact this administrative split has on effective management. Further, the committee directed the Bank Board to: "Take such action * * * as may be necessary to remedy any problems which such an examination may reveal."

Subsequently, I asked my colleague on the Board, Donald Hovde, to convene a task force to follow through and make recommendations to the full Board in order to comply most effectively with the Government Operations Committee directive on the House side.

Mr. Hovde's task force has nearly finished its work and I understand he is very close to making a recommendation to transfer our entire field examination force to the Federal Home Loan Banks. In my own mind, such a move could greatly enhance coordination of the examination and supervision functions.

I say this because, clearly, our field examiner force is severely understaffed and the need for better coordination between examination and supervision is great. More important, we must have the ability to attract, train, and retain more examiners. Our track record in this regard is not good. So we elicit the understanding of this subcommittee as we seek to deal with this problem and to devise workable solutions.

Thank you very much. We will be happy to answer any questions the committee may have.

EXAMINER STAFFING PROBLEM

Senator GARN. Thank you very much, Mr. Gray.

In a couple of minutes, I am going to have to pop out for about 10 minutes to meet someone who we want to get our schedules together. I apologize for that. What I would like you to do while I am gone, not that I couldn't hear it again, Senator Proxmire will be here until I get back, but I have a series of detailed questions. Rather than getting into those, I will submit them to you for your response. What I would like for you to do is to describe for the record and for Senator Proxmire and the other members of the subcommittee the problem you see as far as the twofold staffing problem, supervision and some of the recommendations you feel are necessary under the limited budget circumstances to have more adequate supervision. I think that would be far better for the record at this point to have your analysis of the problem and the recommendations that you intend to make rather than me asking you specific questions about dollar amounts in the budget, which we can do later for your response in writing.

So if you will do that, I will get back just as quickly as I can.

Mr. GRAY. Fine. I appreciate the opportunity to do that, Mr. Chairman, very much.

Senator PROXMIRE [presiding]. Thank you.

First, I am delighted to see you, Ms. Grigsby. Don Hovde is a buddy of mine. He is from Madison, WI. We are proud of him. He was Under Secretary of HUD, as you know, and a real star from our State.

Mr. Gray, you put a lot of stress in your testimony in saying that the Board is facing a potentially acute need of examiners, and you recommend that the funding for the field examiners be removed from the appropriation process. I think you make a very powerful case. As I understand it, you get what you pay for in this world, particularly when you are talking about highly skilled people. Would you give me a little more detail on exactly how the effectiveness of your bank examiners would be improved by removing examiners from the appropriation process?

Mr. GRAY. Yes, first let me say that the supervision force for the Federal Home Loan Bank system is already under the Federal Home Loan Banks, is supported by the Federal Home Loan Banks, and has been, of course, for virtually the entire history of our system.

Senator PROXMIRE. As I understand it, and correct me if I am wrong, I hate to even indicate I don't know this, I should after 27 years dealing with this thing, but you provide for a limitation on expenses, the request is $45 million and $25 million?

Mr. GRAY. Yes.

Senator PROXMIRE. As I understand the way this is put, limitation on expenses, this isn't the general taxpayers' money, this is money that is paid in——

Mr. GRAY. Absolutely.

Senator PROXMIRE [continuing]. In effect by the savings and loan industry. So that we are talking about a situation in which we are not saying you are going to be exempting from the appropriation process anything that the taxpayer has to pay?

Mr. GRAY. Absolutely true. Our principal supervisory agents who also wear the hats of bank presidents at our Federal Home Loan Banks report directly to the Federal Home Loan Bank Board for supervision. However, examination, the other components, report directly up to the Federal Home Loan Bank Board in Washington. As the report of the House Government Operations Committee suggested, as a result of the problem we had at Empire at Mesquite, TX, the coordination between examination and supervision, by virtue of this administrative split, was causing problems.

We are certainly aware, and have been aware of that for some time. So last year I appointed Don Hovde to head a task force to deal with that in response to the Government Operations Committee. Perhaps I should let him tell you what the findings were of that task force because he and Bill Schilling, Director of OES, who is the Deputy Director of the task force, have gone into it in detail.

Don, would you like to do that and I will be happy to answer any other questions.

Mr. HOVDE. Senator Proxmire, thank you again for your very laudatory comments. I personally appreciate it. It may cause me and others to cough at that, but nevertheless, it is kindly accepted.

Senator PROXMIRE. I'm afraid in Madison, they are getting to think you are getting to be a Democrat. [Laughter.]

That would really be a liability for you in the bank circles.

EXAMINER TASK FORCE FINDINGS

Mr. HOVDE. As you appropriately pointed out, Senator, the entire Federal Home Loan Bank Board system is underwritten by the industry through assessment fees and interest paid on loans. There is not one penny of taxpayers' money that has ever gone into the Federal Home Loan Bank system and we trust and hope to keep it that way. So when we talk about appropriation allocation, currently $45 million, that is offset by like fees assessed to the industry.

The problem is we are the only banking regulator that has a split personality in terms of its exam and supervision functions. As you know, I sat on Cullie Ferris' Board, United Bank & Trust, and with the FDIC or Comptroller, you get your examination and supervision at the same time and the supervisors sit down at the conclusion of a bank examination and take up with management some of the immediate problems that have to be dealt with right then and there.

Well, under a dual system as we have, the examiners who are the fact-finders of the operations and lending practices, and other functions that go in the thrift association, that report comes back to Washington. Likewise, one goes off to the supervisors and then the supervisors come in at a later date. Thus you have a time lag built into the system. We have tried to shorten the time lag and coordinate those two functions.

Nonetheless, that is part of the duality that we go under.

Second is the inability—we are in a very difficult position, call it almost a dichotomy, that at the same time we are having an alarming increase of troubled institutions created by uncapitalized excessive growth, our staffing levels, our ability to hire and to retain is severely and adversely impacted in this process. So we have a growing responsibility of problem cases and at the same time high turnover, 16.1 percent compared to 11.4 percent for Government workers, as such, over one-fourth of our examining staff have less than 2 years maturity with us.

In some areas, such as the Dallas district bank, field examiners turnover rate in the past 2 years was 43 percent among our new trainees at the very time that we have this enormous workload out there. So the task force which the chairman appointed represents all of the responsible leadership within the Bank Board system, from the Assistant Director of Examination, from the chief supervisory agents of three of our district banks. We have three, three, and three. It is like Noah's ark: we have to make sure every group is represented and we have had meetings through early December with various subcommittees, dealing with finance, dealing with matters of assuring the future integrity of the examination process and other factors as it relates to implementing this program.

IMPEDIMENTS TO STAFF RETENTION

Senator PROXMIRE. Let me interrupt. Is the problem that if you are under the appropriation process, it is very hard to pay the kind of salary that will keep top flight people once they are trained and able to do the job?

Mr. HOVDE. Our average salary for examiners, Senator, is $24,811. That is $6,000 less than the Office of the Comptroller. On average, $8,000 less than the Office of the FDIC and $13,000 less than the Federal Reserve examiners.

Senator PROXMIRE. Can't you increase the grade level?

Mr. GRAY. We could do that, but our grade levels are still largely limited by the Classification Act. We think that the flexibility that we would get by moving the examiners to the Federal Home Loan Banks and the increased coordination that would occur as a result would be far more helpful.

Senator PROXMIRE. I know the Federal Reserve, of course, is not under the appropriations process, although there is a really serious movement, which I will resist as strongly as I can, to put them under the appropriation process, so there might be that kind of resistance to what you are proposing. Is it the case, I get the implication from you that you are the only one that is under the appropriation process.

Mr. GRAY. That is correct.

Senator PROXMIRE. The Comptroller of the Currency, FDIC, Federal Reserve are out from under the appropriation process.

Mr. HOVDE. That is correct.

Senator PROXMIRE. Comptroller of the Currency, even though they are part of the Treasury Department?

Mr. HOVDE. I don't know about the Office of the Comptroller, Senator.

Senator PROXMIRE. At any rate, you are limited to $23,000 for your examiners?

Mr. Hovde. On average.

Senator Proxmire. On average. Have you made any effort to increase that in the past and been denied it?

Mr. Hovde. I will have to turn to our Budget Director.

Mr. Pittman. We have a twofold problem. One would be a classification restriction under OPM requirements that our positions be graded at a given level for examiners. The other is limits imposed on us in the OMB review each year on how much we can get in our funding limitation.

Senator Proxmire. This would take you out from under OMB?

Mr. Pittman. Yes.

Mr. Hovde. In OES, we are 130 short on staffing levels in our exam function right today, which we can't get. We need an additional 130 people tomorrow. We would like to have them. We would like the ability to go out and recruit and train and retain those people.

ACCOUNTABILITY FOR EXAMINATION FUNCTION

Senator Proxmire. What discipline would there be to make sure this was reasonable and responsible? I take it you would still disclose to the Congress——

Mr. Gray. Absolutely.

Senator Proxmire [continuing]. The information.

Mr. Hovde. The accountability is still back to you. We as a board by statute are totally accountable to you. Likewise, by statute our existing bank presidents and every employee in the district banks as well as their own respective board of directors are totally accountable to us for hiring and firing in any of their activities.

Mr. Gray. Let me cite for you, Senator, a provision of the Federal Home Loan Bank Act. It says:

> The Federal Home Loan Bank Board shall have the power to suspend or remove any director, officer, employee, or agent of any Federal Home Loan Bank and cause such suspension or removal to be communicated in writing forthwith to such director, officer, employee, and agent and to such Federal Home Loan Bank.

What that means is every employee at every Home Loan Bank serves at the pleasure of the Federal Home Loan Bank Board and is accountable for his actions and for the performance to the Federal Home Loan Bank Board.

Senator Proxmire. The budget for 1986 provides that for the Controller of the Currency, there is no annual limit. And it probably indicates, therefore, they are outside the appropriation.

Mr. Gray. For all practical purposes.

OTHER RESTRICTIONS

Mr. Schilling. If I can add to that, as the person directly responsible for managing OES and the examination force, there are a lot of things OPM and OMB attach to our examination force that create even greater burdens. We pay a classified examiner the same in Manhattan as we do in Des Moines with no recognition of the enormous cost-of-living burden they are facing. I have the Director's office in Manhattan vacant, because virtually nobody in my system would take a literal cut in salary to take that promotion. The travel restrictions on our exam force, our ability not to move or relocate attaches to all of those other things, provides a very serious disincentive for our people to stay in our system as opposed to other systems. We do not have that under the bank system and we need to have that additional flexibility.

As far as accountability, OES Washington, would still have oversight—the individual banks would have the examination force delegated to it but the oversight responsibility would still be OES Washington to these three people and through these three people to you.

OMB'S VIEW

Senator PROXMIRE. There is a lot of criticism and sarcasm about the Office of Management and Budget. I think they are doing a good job and I greatly respect Mr. Stockman. He has shown a lot of courage and he is right about 95 percent of the time. Is he resisting this, would he resist this, do you think? Would the administration be opposed to it?

Mr. GRAY. I wouldn't want to characterize any feelings on the part of OMB other than the fact that we have met with them, not Mr. Stockman but the Associate Director, and it would be fair to say that there is a conventionally based reluctance to see any sort of control relinquished.

Senator PROXMIRE. What do they say? I think your arguments are devastating. How do they expect you to do your job when you have to pay people half what they can get if you are going to hold onto them?

Mr. GRAY. I can't speak for them. I do think we have powerful and justifiable arguments.

Senator PROXMIRE. How about the industry?

Mr. GRAY. The industry is very supportive from every contact that we have had.

Senator PROXMIRE. You have got a very powerful case.

Mr. GRAY. Not only that, but we have the statutory authority, and I would ask Mr. Raiden, our General Counsel, to cite the two provisions that we can use.

Senator PROXMIRE. I can understand the OMB taking a tough position this year particularly if it were a matter of holding down Federal spending in general, but it is not Federal spending. It's a fee that is directly paid by the people who you supervise. It seems to me maybe you ought to talk with them and find out——

Mr. GRAY. We will be talking to them later today, and we appreciate those comments because in this case, some 900 field examiners would be moving out of our system to the Federal Home Loan Bank system representing roughly some $45 million to be assumed by the Federal Home Loan Banks.

AUTHORITY TO DELEGATE EXAMINATION FUNCTION

Senator PROXMIRE. I believe Mr. Raiden was going to cite the legal authority for this.

Mr. RAIDEN. Yes, Senator.

The provision of the Federal Home Loan Bank Act authorized the Federal Home Loan Banks themselves to conduct examinations of their members. In addition, a provision was added to the Federal Home Loan Bank Act in the Garn-St Germain Act which authorized the Federal Home Loan Bank Board to delegate any of its functions or of the functions of the FSLIC to any agent or employee or other authority with certain exceptions, such as rulemaking functions. This would be done under that delegation.

ADJUSTABLE RATE MORTGAGES

Senator PROXMIRE. Let me move to another subject, Mr. Gray. What can you report concerning prevailing terms for adjustable rate mortgages and successive efforts to curb abuses in making these mortages, certainly deceptive advertising of low-interest mortgages?

Mr. GRAY. Let me first say, and then I will call on our Director of Economic Policy and Research, we worked with the Congress, we worked with the House Housing Subcommittee under Chairman Gonzalez and with the Federal Reserve Board to develop a brochure which I would expect, depending on what the Federal Reserve Board would choose to do with respect to a provision, changing provisions of their Regulation Z. We are considering a regulation in the absence of that to require every savings institution to present this brochure, which has now been approved and is in circulation to every applicant for a loan.

Senator PROXMIRE. I am all for adjustable rate mortgages. I was very hesitant to begin with. Under the circumstances, with the volatility of interest rates, it is the only way the savings and loan industry can survive.

Mr. GRAY. That is true.

Senator PROXMIRE. I think we should do all we can to try to urge the S&L's to present adjustable rate mortgages.

Mr. HOVDE. Senator, if I may interject here, you may recall at my Senatorial confirmation hearing, you asked me that question in May 1983 that what we as a Board were going to do to encourage adjustable rate lending. I want to tell you this gentleman to my right in June 1983 took it as a major initiative of this Board and at that time only 26 percent of the industry was making adjustable rate mortages. By the end of December 1983, that figure was up to 65 percent and it has been running near that level for the last 2 years.

Senator PROXMIRE. It is still up that high?

Mr. HOVDE. It dropped off slightly in December and January of this year, down to about the 50-percent level, but it has been as high as 79 percent in the time period.

Senator PROXMIRE. Thank you very much. I take it that the Chairman would want to go ahead.

PROPOSED FSLIC LEGISLATION

Mr. GRAY. If I may add something, we are also very concerned about the kind of limits that we must operate under, with respect to OMB, regarding the Federal Savings and Loan Insurance Corporation.

Therefore, in the legislative package that we will be sending to Congress, we are going to ask that the FSLIC also have the same ability to deal with its problems as the FDIC. We have in comparison to the FDIC with at least several thousand people, directly involved in the insurance function, we have only about a hundred. Given the magnitude of our problems and given the needed flexibility that we must have to protect this fund, we believe that it is entirely justifiable and appropriate to be treated in the same way as the FDIC. So we will be proposing legislation to give us that flexibility that we need.

Senator PROXMIRE. Jake and I are both on the Banking Committee as well as this committee, as you know. We are very sympathetic. Thank you very much.

SUBMITTED QUESTIONS

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR GARN

5% PAY REDUCTION

Question: Should Congress not enact the proposed 5% pay cut for Federal employees, what additional amount will have to be added to your requested limitation?

Answer: For the Bank Board, $1,845,000 of which $675,000 will be for the administrative account and $1,170,000 will be for the nonadministrative account. The FSLIC administrative account would require an additional $37,000.

OFFICE OF EXAMINATIONS AND SUPERVISION

Question: Your budget request for FY 86 shows no increase in FTE's for the Office of Examinations and Supervision. What was your request to OMB for this Office for funding and FTE's?

Answer: We requested funding of $47,561,000 and an increase of 48 FTE positions to bring the authorized staffing level to 945 FTE.

TRANSFER AUTHORITY

Question: The Budget Appendix indicates that you are requesting retention of the 10% transfer authority between accounts, yet are seeking a change to permit such transfers upon simple notification to Congress rather than requiring prior approval. Was this amendment sought by your agency or was it prompted by OMB?

Answer: The amendment was initiated by OMB.

Question: Has the prior approval requirement been a significant impediment to your agency?

Answer: No. In fact, we have not had the need to request use of this provision to date. Nevertheless, we feel the presently enacted provision would continue to afford us necessary standby flexibility during this period of operating challenges faced by the agency.

EQUIPMENT

Question: In your budget justification, you list equipment costs under "Rent and Utilities", "Other Services" and "Acquisition of Capital Assets". Please describe the reason for these separate listings.

Answer: The separate listings are in accordance with OMB guidelines and definitions for different expense categories. Specifically, equipment listed under "Rent and Utilities" is that which is leased by the Board on a year-to-year basis. Conversely, the category, "Acquisition of Capital Assets" is for equipment which is purchased by the Board. The expense item under "Other Services" provides for contractual maintenance and repair of agency-owned equipment items.

CAPITAL ASSETS-EQUIPMENT

Question: Page C-17 of your justification indicates that the request under the heading "Acquisition of Capital Assets-Equipment" is based largely on the amortized cost of furniture, fixtures and equipment; the balance of $160,000 covers "noncapitalized equipment items". Please explain this policy and indicate what portion of this item is actually expended on a cash basis during the year.

Answer: The Board's accounting practice, as audited and approved annually by the General Accounting Office, is to depreciate the cost of capital assets over an average life of ten years. Of the total $1,016,000 in this line item, $856,000 is non-cash depreciation expense. This is for accounting purposes and does not result in a cash outlay. The balance of $160,000 is budgeted for the purchase of equipment which is expended on a cash basis during the year.

EXAMINATION SUPERVISION

Question: An alternative which you seem to favor is to transfer the examination function to the Federal Home Loan Banks where the supervision responsibilities currently reside. In addition to providing for greater coordination between supervision and examination you seem to suggest that this will improve staff retention. What data do you have comparing compensation and tenure levels of District Bank supervision personnel, that of equivalent FDIC, Office of the Comptroller of the Currency and Federal staff, with that of your Office of Examinations and Supervision?

Answer: We have determined from the other Bank regulatory agencies that the average Examining staff salaries are as follows:

Federal Home Loan Bank Board -	$24,775
Office of the Comptroller of the Currency -	$30,764
Federal Deposit Insurance Corporation -	$32,505
Federal Reserve Board -	$37,900

The average Bank Supervisory staff salary is approximately $35,000.

The Board has experienced a higher turnover rate than the Government at large during the last several years -- 16.1 percent for the Board versus 11.4 percent for the Federal Government in FY 1984. As a result, the percentage of Examiner trainees to total Examiners is nearly 25 percent nationwide — and as high as 27 percent in the Atlanta District and 43 percent in the Dallas District. We have been unable to determine comparable data for the other organizations listed above.

STAFF TURNOVER

Question: You indicate an extremely high rate of staff turnover — 17 percent annually for the Board as a whole. What is it for your Field Examination staff?

Answer: For Fiscal Year 1984, the field examination turnover rate was 16.1 percent throughout the twelve District offices. In the Atlanta District, however, the turnover rate was 28.3 percent, and in the Dallas District, it rose to 23.5 percent. Furthermore, with the turnover rate during the last several years, nearly 25 percent of our entire Field Examination staff has two or less years of service. In the Atlanta District, 27 percent of the Examiners are trainees and in the Dallas District, trainees constitute 43 percent of the Examination staff.

STATE CHARTERED THRIFTS

Question: State-chartered thrifts often have greater latitude in making investments outside the traditional home mortgage area, while still enjoying the benefits of Federal insurance. Beyond simply limiting the percentage of such investments, how do you believe we ought to address the added risk involved?

Answer: When every institution which is insured by the Federal Savings and Loan Insurance Corporation (FSLIC) -- state or Federal — contributes the same premium relative to the deposits it holds, there is no way to underwrite for the risk of loss except through the regulatory underwriting process. We presently have no authority to underwrite risk by pricing premiums differently.

Today, the more conservatively run institution with high net worth pays exactly the same premium relative to deposits to the FSLIC as the institution which chooses to engage in higher risk activities and has far less net worth. When insolvencies occur as a result of higher risk-taking and an institution fails to reserve against such losses through the establishment of net worth which is adequate to meet that risk of loss — other institutions must fund any loss incurred by the FSLIC through their premium payments.

This is why the Bank Board is proposing to at least make a start at dealing with risk more effectively through what can be called the establishment of a supplementary premium payments system — a system in which institutions which have the authority to engage in activities which go beyond those that Congress found suitable to insure for Federal savings institutions would pay supplementary premiums to the FSLIC in return for the right to engage in higher risk activities.

Question: Have you developed guidelines for supplementing insurance premiums?

Answer: We are in the process of developing such guidelines. Certain net worth standards would have to be met for institutions to participate in the supplementary premium program. The quality of management and track record of the institution ought to meet certain criteria. Any "thriftness" test in existence would have to be satisfied. And, the extent to which an institution chose to engage in such activities would also be a determinant of the amount of the supplementary premium charged.

Another factor which would be taken into account would be the level of real net worth held by the participant in the supplementary premium program. Those institutions with very high real net worth would pay proportionately less in supplementary premiums than other qualified participants, given the protection their very high real net worth affords to cushion the risk of loss to both the institution and to the FSLIC.

We believe that the conceptual framework of this approach would strengthen the moorings of the dual Federal-state system by reaffirming the validity of state-authorized thrift powers for healthy institutions while, at the same time, more fairly allocating the cost of risk to the FSLIC and the risk of loss to member FSLIC institutions.

NON-BANK BANKS

Question: At a number of points in your statement, the non-bank bank phenomenon is mentioned. Your primary concern appears to be the cost impact this has had for the Insurance Fund in working out financial solutions for problem thrifts. In essence, non-bank banks have undercut the market for S&L charters and, therefore, the Insurance Fund is being forced to bear the full cost of insolvencies. Is this an accurate reading?

Answer: It is certainly accurate to conclude that the geographic expansion of non-bank banks has eroded the value of interstate mergers for troubled thrifts and increased the cost to the FSLIC of resolving some failed institutions.

Question: Is it fair to say that the non-bank bank loophole is aggravating a more fundamental issue — that is, severe asset quality problems which make solutions, short of liquidation or large infusions of new capital, inadequate?

Answer: There is no precise way to evaluate just how much additional competition non-bank banks have caused or just what effect the phenomenon has had on risk-taking, the impact to date has probably been negligible. However, it is our view that if there is a sharp increase in the number of non-bank banks, the additional competition in the current environment will cause a significant number of thrift institutions to take greater credit risks and this will result in an increase in the number and severity of the supervisory problems facing the Bank Board and the caseload of the FSLIC.

LOAN TO AGENCY FOR INTERNATIONAL DEVELOPMENT (AID)

Question: Why does the Federal Home Loan Bank's Financial Report show an $81 million loan to AID?

Answer: The Agency for International Development (AID) issues loan guarantees backed by the U.S. Government for housing project loans to needy countries. The FHLBanks (Banks) qualify as eligible investors, and under contracts of guaranty may sell participating interests in such loans to members of the Banks.

AID-guaranteed loans were made by the Banks from 1969 through 1978, but the last disbursement was not made until March 1981. Of the $81 million in AID-guaranteed loans held by the Banks, $35 million represents their retention of a nominal 10 percent or less interest in each loan to justify their position as the lender of record. The other $46 million represents participations which the Banks have retained.

"FREDDIE MAC" STOCK

Question: Late last year, the Federal Home Loan Mortgage Corporation issued preferred stock to the Federal Home Loan Banks which, in turn, transferred this stock to individual thrifts. I understand that these transactions have the effect of providing thrifts of a $600 million cash benefit. Since there was some controversy about the wisdom and propriety raised about this transaction within the Administration, we would like to hear your side of the issue.

Answer: The Federal Home Loan Mortgage Corporation (FHLMC) was chartered in 1970 and capitalized with $100,000,000 of common stock purchased by the Federal Home Loan Banks (FHLBs). The stock of the FHLBs,in turn, is held by the member institutions of those Banks. Although savings institutions have been the beneficial owners of "Freddie Mac" since its creation in 1970, the FHLMC has been paying cash dividends on its common stock to the FHLBs and the FHLBs have been paying dividends on their common stock to their member institutions only since 1981.

In December 1984, the Board of Directors of FHLMC created a new class of preferred stock which, generally, is entitled to receive 90 percent of dividends paid by FHLMC. This stock, which was appraised at a value of $600 to $900 million, was distributed as a dividend in kind to the FHLBs which in turn distributed it to their stockholders, resulting in the recording of $600 million of income to FHLB members in 1984. The common stock remained on the books of the FHLBs.

After the dividend was paid, the Office of Management and Budget (OMB) challenged the legality and accounting for the dividend. OMB wrote to the Department of Justice, Office of Legal Counsel, requesting an opinion that the dividend of preferred stock was illegal. OMB also contacted the Financial Accounting Standards Board (FASB) and appeared at a hearing before the FASB contending that the dividend should not be recognized as income by the FHLB member recipients of the dividend.

The Office of Legal Counsel has ruled that the dividend both by FHLMC to the FHLBs and by the FHLBs to their members was authorized by applicable statutes. That Office stated in its opinion that "we are aware of no facts or legal authorities that even remotely support the conclusion that the preferred stock transaction was unlawful."

The FASB has ruled that the dividend of preferred stock to the FHLB members should be recognized as income for 1984. The transaction has therefore had the effect of permitting the thrift industry to recognize the appreciated value of FHLMC since the original investment in 1970 and to thereby enhance the net worth of thrift institutions by approximately $600 million.

The transaction does not affect the operations of FHLMC since the preferred stock is nonvoting and the Federal Home Loan Bank Board members remain, by statute, the Board of Directors of FHLMC.

DIRECT INVESTMENT AND NET WORTH REGULATIONS

Question: To address explosive growth occurring in the industry -- and new problems resulting from dramatic financial shifts you proposed regulations limiting "brokered" funds. These were overturned by the courts. That rule has been succeeded by newly implemented rules governing direct investments by state-chartered thrifts as well as net worth regulations. As you well know, concerns were expressed in Congress about these rules. Please describe the circumstances which led you to promulgate these rules and what effect and reaction you are receiving from the industry.

Answer: The Bank Board's reasons for promulgating these regulations are best explained in the prepared remarks recently presented to the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Committee on Government Operations on February 27, 1985. In brief, the Bank Board adopted the net worth regulation to redress the chronic capital deficiency of the industry; required net worth of the industry as a ratio of liabilities stood at 2.1 percent at the end of 1984. This low required net worth was a result of a variety of regulatory techniques for calculating net worth, such as 5-year averaging and the 20-year phase-in, which the net worth rule eliminates. In addition, the rule addresses the problem of rapid growth without adequate capital by tying an institution's capital requirement to its growth rate and imposing a growth threshold of 25 percent a year, beyond which supervisory approval is required.

The direct investment rule was adopted to provide supervisory thresholds for direct investments. Several states have recently authorized substantial, and in some cases unlimited, direct investments by state-chartered institutions. Some FSLIC-insured institutions in these states have taken excessive risks in the form of direct investments, thereby posing a substantial risk to the FSLIC Fund. As you are aware, the FSLIC Fund is suffering significant strains and its book reserves actually declined last year for the first time in history.

The direct investment regulation became effective on March 21,1985 and the net worth rule took effect in the calendar quarter ending March 31, 1985. Consequently, the Bank Board does not have data reflecting the effect of either rule. We received numerous comments from the industry prior to adopting the rules, which were considered and discussed in great detail in the preambles to the regulations. Since promulgation of these rules, we have received no further comments. Bank Board staff has, of course, answered many questions raised by industry members as to the general operation of the rules and their applicability to specific circumstances. Both rules are scheduled to sunset in two years at which time the Bank Board will have the opportunity to review fully the effect of these rules on the savings and loan industry.

STATUS OF THE FSLIC FUND

Question: You note two alarming trends regarding the financial status of the FSLIC Fund — first, a rapidly increasing level of insured deposits — potential liabilities — to $785 billion as of December 31, 1984, and second, an unprecedented decline in FSLIC reserves from $6.4 billion to $6.0 billion over the last year. Less than a month ago, the Bank Board assessed a special premium of one thirty-second of one percent of deposits to replenish the Fund. What reaction has this action generated among the industry?

Answer: There is broad agreement within the thrift industry that the strength of the FSLIC Fund must be preserved, and that the Fund is a critical element in the maintenance of public confidence. The Bank Board has received many letters suggesting adoption of some form of risk premium system. The overwhelming industry sentiment is that well-run institutions do not want to "bail out the high flyers" and "cover the sins of a few." The Bank Board's supplemental premium program, which I described in my testimony, would help address this concern.

Question: What is your current estimate of the FSLIC Fund requirements for future replenishment?

Answer: The difficult and fragile transition which thrifts have been facing has had profound implications for the FSLIC Fund and requirements for future replenishments. The Fund is under enormous stress. Absent strong remedial action, we foresee additional strains resulting from asset quality problems and unlimited access to funds, including brokered money.

The book value of FSLIC reserves represents a ratio of FSLIC reserves to insured deposits which has been rapidly approaching an historic low point. Historically, the reserve ratio (total FSLIC book reserves as a percentage of total deposits) has averaged 1.2 percent, peaking at 2.12 percent in 1970. Since then, the ratio has declined sharply, falling from 0.92 percent at the end of the third quarter of 1984 to 0.76 percent at year's end.

As a result of the projected impact on FSLIC's reserves, the Federal Home Loan Bank Board has already assessed a special premium of one thirty-second of one percent of deposits on individual savings institutions insured by the FSLIC, payable on March 31, 1985. The need to strengthen the real, and not just the perceived, levels of adequacy of the Fund was the compelling reason for the Board's decision.

This assessment will immediately add approximately $250 million to FSLIC's Insurance Fund. Furthermore, the Bank Board also is considering the assessment of further additional premiums in amounts equal to one thirty-second of one percent on a quarterly basis during 1985, should it become necessary. Total funds potentially added would be $1 billion and would boost the reserve ratio to 1.8 percent of insured deposits. The special assessment helps meet the Insurance Fund's short-term needs, but it is not enough for the longer term.

Long-term replenishment of the Fund is, in my judgment, dependent upon the Bank Board's ability to underwrite risk by pricing premiums differently. As you know, the Bank Board has proposed the establishment of a "supplementary premium payments system"-- a system in which institutions, which have the authority to engage in activities which go beyond those that Congress found suitable to insure for Federal savings institutions, would pay supplementary premiums to the FSLIC in return for the right to engage in higher risk activities.

As I reiterated in my testimony of March 27, 1985, before Chairman St Germain of the House Banking Committee on the subject of the Board's direct investment regulation, I believe that the risk premium concept should be a key component of any legislated solution to replenish the resources and maintain the adequacy of the reserves of the Insurance Fund on a long-term basis. The Board is continuing to work closely with the Congress and the savings institution industry to devise means to provide long-term replenishment to enable the Insurance Fund to meet its obligations.

APPORTIONMENT OF FSLIC NON-ADMINISTRATIVE FUNDS

Question: There has been a continuing dispute between OMB and the Bank Board on the application of the Anti-Deficiency Act requirements for apportionment of non-administrative funds of the Insurance Fund. Please outline the background of this issue and its current status.

Answer: The Anti-Deficiency Act (the "Act") requires that an agency subject to the Act segregate for accounting purposes amounts available for specified purposes over specified periods. The agency then cannot exceed the specified amount in any category. It has been FSLIC`s position, supported by at least three prior General Counsels, that its non-administrative expenditures, i.e., such as funds used for default prevention, are outside the purview of the Act for reasons including a provision of the National Housing Act giving FSLIC authority to "determine its necessary expenditures ... without regard to any other law governing the expenditures of public funds." OMB`s position is to the contrary. In February 1983, the Office of Legal Counsel at the Department of Justice, in response to an inquiry from OMB, concluded that OMB had the authority to apportion FSLIC non-administrative funds.

The issue of whether the FSLIC is subject to the Act with respect to its non-administrative funds has been highlighted during the past three years because of the thrift industry`s crisis and FSLIC`s need to act swiftly and decisively, sometimes overnight or over a weekend, to avert financial institution failures and to preserve public confidence. It is neither possible to predict accurately through the budgeting process the number or cost of failures of financial institutions for the forthcoming years, nor can we forecast the impact on our financial institutions of failures such as the recent ESM Government Securities, Inc. Although the Bank Board`s staff must regularly plan for such contingencies, the impact on specific financial categories within the FSLIC Fund often cannot be determined until the solution to the problem is at hand or implemented on a case-by-case basis.

Notwithstanding its position, the Bank Board has cooperated with OMB by working out a budget and informal reporting process that would accommodate OMB's need for information about significant FSLIC financial transactions while at the same time satisfying FSLIC's need for flexibility to deal with a variety of problem cases. Under the past informal reporting process OMB claims a violation of the Act occurred on July 30, 1982, when FSLIC exceeded by $2.8 million the apportionment limit on Income Capital Certificates issued to avoid the imminent failure of three S&L's, and has insisted that the FSLIC must file a report of the violation.

It is FSLIC's view that given its statutory mandate to prevent the default of the institutions it regulates and protect the institution's depositors, it cannot be put into a position where it could not act on an S&L rescue because of OMB-imposed apportionment limits on one or more categories of FSLIC financing.

Since 1982, there has been a succession of correspondence and meetings between OMB and Bank Board staff attempting to work out a compromise solution that is responsive to the positions and requirements of each. A FSLIC proposal for a workable budgeting process, dated August 10, 1984, was tentatively accepted by OMB staff, but then rejected. Follow-up meetings have continued without measurable progress. FSLIC has indicated to OMB its willingness to apportion funds into a single line-item category for FSLIC Program Assistance without conceding the legal issue of applicability of the Act; however, it questions why it should not be in the same position as the FDIC, which is not required to apportion. Following one meeting last Fall we provided OMB a copy of a lengthy legal analysis and opinion of FSLIC's position. At that meeting OMB staff agreed to provide us with an explanation of why FSLIC should be treated differently from the FDIC. Further discussions were to be continued from that point.

The promised explanation has not been forthcoming nor have we heard further from OMB with respect to their review of our opinion. A request from FSLIC to OMB for apportionment exemption is still pending at OMB, although it is our understanding that such exemption is routinely granted to FDIC.

Most recently, the Bank Board has presented to the House and Senate Banking Committees proposed legislation for a number of improvements in the FSLIC area. One provision of this draft bill would clarify FSLIC's status as exempt from apportionment of its expenditures in carrying out its authority and responsibilities under the National Housing Act.

Added to this Agency's concern that FSLIC not be placed in a position where it cannot effectively meet its statutory obligations, is a growing concern that OMB's positioning and actions may be other than on the merits, which raises perhaps an even more critical issue — the independence of this Agency. Our concern in this regard is heightened by a review of correspondence in 1982 from OMB regarding the apportionment issue, wherein OMB expressed the intent to use apportionment as a "flexible tool" to ensure FSLIC's responses to thrift industry problems are consistent with "Administration policy objectives." There existed at the time of that correspondence a difference of views about FSLIC's use of Income Capital Certificates. When such positioning in 1982 is coupled with recent January 1985 actions of OMB threatening to impose criminal sanctions against officers or employees of this Agency for future Anti-Deficiency Act violations, at a time when there existed an unrelated disagreement between us over the Federal Home Loan Mortgage Corporation preferred stock dividend, leads to the conclusion that the future independence of this Agency may hinge on resolution of the apportionment issue. For these reasons we continue to explore possible solutions short of acquiescing to OMB's position.

STAFFING PROBLEMS

Question: Last year, you said that you were hopeful that the levels requested for new examiners would enable the Board to do the job. Your judgment today seems to be a resounding "no". Please detail what steps you have taken in terms of seeking more personnel and flexibility from OMB and OPM to correct this problem short of simply moving this function off-budget.

Answer: The problems are threefold: OPM - administered restrictions on position classification, OMB limits on employment ceiling, and our agency's current administrative split in examination and supervision duties performed by examiners who are civil service employees of the agency and supervisory agents who are employees of the District Federal Home Loan Banks which report to the Board.

Much of our inability to attract and retain qualified personnel to fill examiner positions is the result of grade level and pay restrictions. OPM continues to hold that the provisions of the Classification Act of 1949 govern the grade levels and therefore the salaries of Bank Board examiners. The OPM written classification standards that establish the grade levels of our examiner positions are 23 years old and hardly reflect the complexity of work resulting from the industry's financial crisis of the last several years, much less the variety of business operations made possible by deregulation. The examiner positions of other financial agencies such as the Federal Deposit Insurance Corporation and the Federal Reserve are not subject to the Classification Act. These agencies can and do adjust the salaries of their examiners according to the circumstances of current conditions.

As regards the number of positions, we requested of OMB for our FY 1986 budget, an increase of 48 positions for our field examiner offices. This would have raised our total field examination employment ceiling to 945, a 5.4 percent increase over the FY 1985 authorized level of 897. We believe this is the absolute bare-bones minimum needed to adequately perform the examination function in FY 1986. OMB disallowed the increase and kept our examiner staffing ceiling at the FY 1985 level.

Question: Did you request a program supplemental of OMB for FY 1985 for the Office of Examinations and Supervision?

Answer: In March of 1984, prior to Congressional action on the FY 1985 budget, we requested of OMB a program amendment to add 50 positions and $2 million to our FY 1985 Office of Examinations and Supervision (OES) budget limitation. OMB approved an increase of 37 of the 50 requested positions and a corresponding increase in the OES funding limitation of $1,480,000. Congress subsequently approved the amendment as endorsed by OMB.

Questions Submitted by Senator Leahy

HOUSING COSTS

Question: Would you provide for the Committee an estimate of the cost of the average or a typical residential single-family foreclosure? Please provide a breakdown of these costs by category of costs.

Answer: We have no recent information on foreclosure costs. We do know, however, that such costs vary widely from area to area because of differences in state laws governing foreclosures. In addition, there are a number of different ways of measuring foreclosure costs.

More than 10 years ago--in 1974--the Bank Board funded a case study of foreclosure costs at six savings and loan associations in three states with substantially different foreclosure requirements in order to obtain some information on such cost differences. This information is clearly out-of-date because of the rise in prices since 1974, but nevertheless is probably indicative of the problems involved in measuring foreclosure costs. The following table summarizes average direct foreclosure costs per $1,000 loan balance for the sample institutions in the three states covered by the study.

	Illinois	California	Texas
Transaction costs (e.g., attorney fees, cost of foreclosure sale, broker commission)	$135	$ 80	$ 28
Property costs (e.g., taxes, maintenance, insurance)	212	97	68
Interest foregone (between last payment and liquidation)	153	82	49
Total	$500	$259	$145

The primary reason for cost differences was the time elapsed between last payment and liquidation. Illinois required a 6-12 month redemption period and California a 90-day waiting period. In most cases, lenders recoup a portion of their foreclosure cost when the property is sold, but this is highly dependent on the price appreciation of the property foreclosed.

STAFFING PROBLEMS

Question: In your testimony, you stated that the Board has no field personnel at the present time capable of carrying out an examination of the bank's electronic data processing operations. Does this situation exist because of a lack of legislative authority or because of a lack of resources?

Answer: The situation exists because of a lack of resources.

Question: Has the OMB refused to agree to add examiners or other personnel necessary to meet your statutory obligations of protecting the soundness of the institution?

Answer: The following is a comparative summary of the Bank Board's examination-related staffing requests since FY 1982 and the amounts approved by OMB for those years:

FEDERAL HOME LOAN BANK BOARD (FHLBB) EXAMINER
FULL-TIME EQUIVALENT POSITIONS

Fiscal Year	FHLBB Request	OMB Approved
1982	951	934
1983	936	934
1984	900	891
1985 (Initial)	880	860
1985 (Amended)	910	897
1986	945	897

For FY 1985, OMB initially reduced our authorized employment ceiling by 31 positions to 860 full-time equivalent (FTE) positions, down from the FY 1984 authorized level of 891. In the face of mounting asset-quality problems among an increasing number of insured thrift institutions, the Board requested of OMB a FY 1985 budget amendment to raise the authorized level to 910 FTE. OMB supported the amendment but at the reduced level of 897 FTE. For FY 1986, we requested a bare-bones minimum of 945 FTE positions, a 5.4 percent increase over FY 1985's level of 897. The Board believes that in view of the enormity of thrift industry problems, this is the absolute minimum needed to perform adequately in FY 1986. OMB disallowed the increase and kept the FY 1986 authorized staffing at the previous year's level of 897.

OMB believes that additional field examiner positions should come from further internal reallocations within the Bank Board's administrative budget. However, the Board has been paring down its administrative staff as evidenced by the nearly 13 percent reduction since the beginning of fiscal year 1983.

ACTIVITIES IN VERMONT

Question: Please describe all activities undertaken, directly or indirectly, or facilities owned, leased or otherwise controlled in the State of Vermont.

Answer: The Board does not directly or indirectly own, lease or otherwise control facilities in the State of Vermont. Our examination activities in the State of Vermont are performed by employees operating out of our Boston District Office.

NATIONAL INSTITUTE OF BUILDING SCIENCES

STATEMENT OF THOMAS MOSES, CHAIRMAN OF THE BOARD

ACCOMPANIED BY BRIAN LANDERGAN, COMPTROLLER

PREPARED STATEMENT

Senator PROXMIRE. Our next witnesses are from NIBS, the National Institute of Building Sciences. We are delighted to see you.

This hearing is part of our continuing oversight over the management and operations of the Institute.

Mr. Moses, welcome to the hearings. We have your prepared statement which will be made part of the record. Please summarize as you wish.

[The statement follows:]

STATEMENT OF THOMAS M. MOSES

Mr. Chairman, members of the Subcommittee, my name is Thomas M. Moses, P.E. I am the Chairman of the Board of the National Institute of Building Sciences. Accompanying me today is Brian R. Landergan, Senior Vice President and Acting Controller of the Institute. Unfortunately, Gene C. Brewer cannot be here today due to an illness.

As further background on myself, let me say that I direct and manage Walt Disney World's Reedy Creek Improvement District program in Lake Buena Vista, Florida. The many visitors to Disney World each year can bear witness to our efforts to foster technological advancement in building design and construction.

In addition, I am a past-president of the Southern Building Code Congress International and of the Council of American Building Officials (CABO).

Thus far, fiscal year 1985 has been a cautious year of transition for NIBS. Nearing the close of the second quarter, we are pleased with the progress we have made in our private sector fund-raising initiative; and now with the funds made available from the trust fund at Treasury, we are well able to maintain our momentum in several of our "mission" programs.

Of foremost interest to the Subcommittee is the fact that in fiscal year 1984 we received $572,089 in private grants, donations, and membership dues. In keeping with our agreed upon system of matching private contributions from the preceding fiscal year with interest earned on the $5 million Treasury trust fund, we are eligible to receive $500,000 from the Treasury in 1985. This concept seems to be working well and we extend our appreciation to Senator Garn and his Subcommittee for the leadership that made possible this trust fund mechanism.

The news of a Congressionally mandated trust fund to aid with basic funding for NIBS was welcomed in all corners of the building community. The major organizations and companies that had authorized large sums of money to support the Institute were particularly pleased with the enactment of the trust as recognition by the Congress that NIBS serves both government and industry. With this shared base of support amounting to just over $1 million annually, it is now clear that NIBS will continue to function and provide authoritative advice to all sectors of the economy on appropriate building science related matters.

Without doubt, the newly established trust fund has become the cornerstone of our financial base and we believe other Congressional committees might take note of this important mechanism for potential use with other public interest programs.

The Subcommittee is well aware of the Institute's history of accomplishment as well as some of the frustrations it has endured. With the recession behind and the trust fund in place, we look forward to fulfilling a rigorous list of plans and programs believed to be significant to the building community.

In our seventh year of operation, we have refined our long and short range planning process to evolve those building science issues that most directly impact all of society. Such issues reach far beyond the specific programmatic areas contained in our authorizing legislation. This year, the Institute's Consultative Council recommended pursuit of nine (9) short term efforts and an additional seven (7) programs of long range interest. These programs are summarized here for the Subcommittee's information. More detail is available from Institute staff as these few words are inadequate to present either the magnitude of effort underway at NIBS or the tremendous level of interest in the work.

Priority List

- Indoor Air Quality
- Asbestos
- Toxicity
- Facility Start-Up
- Building Product Approval
- Housing Research Agenda
- Advice to National Bureau of Standards
- Advise and Assist Government Agencies
- Performance Criteria for Codes & Standards

We are pleased to report that activities are underway in each of these nine areas supported by contracts, grants, or funds made available by the trust fund. Differing levels of activity can be reported in each area and progress is directly related to the magnitude of dollar investments in each program area.

Of longer range interest to our Council members are the following:

- International Standards
- Quality in Construction
- Building Use and Safety
- Technically Oriented Seminars
- Building Seismic Safety
- Computer Applications in Design and Construction
- Building Energy Conservation

The Institute has performed some work in each of these areas. Since 1979, an effort has been underway at NIBS to organize and support the "Building Seismic Safety Council" (BSSC), a volunteer organization formed under NIBS' auspices to foster technical advancement and recognition of seismic design provisions for new and existing buildings. With financial support provided by the Federal Emergency Management Agency (FEMA), the BSSC has generated useful information (guidelines) for seismic design and retrofit in earthquake prone regions of the country. This program will contribute significantly to enhanced life safety in buildings. In that FEMA also depends on appropriated funds to support its earthquake hazard mitigation initiative, we encourage the Appropriations Subcommittee to recognize the excellent work being performed in response to FEMA's mandate and to maintain financial support for the elements identified in the FEMA "Five Year Plan" for earthquake hazard mitigation.

Another "Council" formed under the aegis of NIBS was the Building Thermal Envelope Coordinating Council (BTECC). This group is actively identifying ongoing and needed research efforts relating to improved thermal performance of materials, equipment, and components used in building shells. Of importance here is the fact that in 1984 the U.S. Department of Energy asked BTECC to undertake updating of the widely accepted "National Program Plan for the Thermal Efficiency of Building Envelopes and Systems." At present, eight research coordinating committees are organized to initiate this rewriting and refinement exercise.

A third Council was formed in 1984 on Protection of Buildings from Wood Destroying Organisms. The goal of the Council is to promote the development and use of safe and effective control technologies for the general protection of new and existing buildings from damage by wood destroying organisms.

Throughout 1984 and into 1985, the Institute has made very real strides in bringing the various public and private elements of the building community together to debate their different perspectives and distinguish fact from fiction. Recognizing facts and determining their significance in the overall building process have proven to be entirely separate concerns. The Institute is known for its consensus process and its ability to manage complex sets of disparate facts and data toward the realization of meaningful recommendations and solutions. Our mission, as prescribed by Congress, is to be an "authoritative source" of information and advice; therefore, it is incumbent upon the Institute's Board, membership, and staff, to explore all reasonable sides of an issue and render judgments that are sound and without bias.

The NIBS process permits progress to be made at all levels of government. Of note is the fact that we have seen the establishment of an Ohio Consultative Council where state issues are now debated in open forum, as they are here at the national level. Numerous issues have been addressed, and many more are being recognized.

Perhaps of broadest local potential impact are the discussions NIBS has hosted between fire marshalls and building code officials. Several meetings over the last two years have shown that constructive discourse between these groups can significantly enhance the relationship between two important community groups.

The Institute's work, beyond that enabled by our grants and trust fund, requires time, patience, and financial resources. As that "authoritative source" of information and advice, NIBS is often called upon to render technical judgments on matters impacting consumers, recommend expert witnesses for litigation underway in our nation's court system, provide speakers and resource documents for conferences and important meetings, maintain contact with state and local governments as to the appropriate use of building technology and building codes. This activity is immensely valuable to the public, however, and expensive to maintain. Nevertheless, we provide as much assistance as is affordable within the bounds of our annual budget. Suffice it to say that "we do what we can" to satisfy the many demands on our staff and our resources. However, we cannot begin to fulfill all of the requests for information, advise all those in need of advice, continue our mission work, and undertake high priority programs brought to us by the Consultative Council, Federal agencies, and the Congress. In short, we cannot respond to all that is expected of us. Try though we may, the need for our services and our process exceeds our current ability to satisfy that need.

In recent months we have taken steps to clarify our operational procedures in order to provide better coordination between the Institute and its many valuable constituent organizations. For the Subcommittee's information we are including with this statement our newly adopted Operating Policy which clearly spells out the types of work we will endeavor to perform in future years. This policy recognizes that the Institute is in the knowledge business and that the sources of our knowledge are the many societies, associations, corporations, and individuals that comprise the building commuinty. As such we will recognize the best source of response to a particular question and look for existing knowledge in that subject area, or create new ways of applying older knowledge in order to formulate progressive, forward thinking solutions to longstanding problems.

In the coming months, we expect to become increasingly involved in several issues and with several agencies within the jurisdiction of this Subcommittee. Last summer we advised this Subcommittee against the appropriation of funds to EPA for asbestos abatement and removal until such time as adequate asbestos hazard assessment models and abatement guidelines had been developed. As of this date, the models and guidelines we advised were needed are still nonexistent. Discussions with EPA staff have produced a recognition at that Agency that NIBS is a source of expertise on the asbestos issue, but to date no work plan has been proposed by EPA. We stand ready to assist EPA in a timely manner as they are called upon to meet legislative deadlines.

Similarly, we stand ready to assist with efforts in Indoor Air Quality and Toxicity in Building Fires when adequate support from EPA, CPSC and other affected agencies becomes available. Our capacity to bring volunteers together with indepth knowledge of technical matters appears to have been overlooked by agencies we are instructed to advise.

We are continuing our work in developing a Housing Research Agenda for the nation. First directed by the Senate in 1981, HUD entered into an agreement with the Institute to produce priority recommendations on needed housing research initiatives. Although the Department complied, the level of funding made available for support of our work was less than 10% of that originally proposed. In 1985, HUD again awarded a small grant to assist us in our housing technology work, but the level of financial commitment was again inadequate.

Mr. Chairman, as mentioned earlier, the Institute considers one of its significant resources the enormous commitment of volunteer time and in-kind services devoted to Institute work by the private sector. We estimate that the time of our volunteer members alone, over the course of a year, is worth in excess of $1 million. This is a substantial contribution in and of itself We only hope that as our membership continues to grow, Federal agencies and departments will recognize the value of this resource.

In conclusion, we appreciate the opportunity to return again this year and thank the Chairman for his continuing efforts on our behalf The building community is truly grateful for the important precedent set in motion as a result of our matching trust fund. The private sector has accepted the challenge conceived by this Subcommittee and our members recognize that they must initiate contributions to allow the trust fund to be utilized. This is tangible evidence of a practical working relationship between government and the private sector.

We have included additional documents and exhibits for your review. Included are copies of our audit of private contributions for fiscal year 1984 and a memo from OMB acknowledging the matchings funds concept. Copies of our 1984 Annual Report to the President of the United States will be made available to Subcommittee members in the near future.

Thank you for having us back to report our progress. We would be pleased to respond to any questions you may have.

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

ARTHUR YOUNG

1025 Connecticut Avenue, N.W.
Washington, D.C. 20036

Board of Directors
National Institute of Building Sciences

We have examined the statement of nonfederal funds received by the National Institute of Building Sciences for the year ended September 30, 1984, under the terms of Public Law 98-396, creating the National Institute of Building Sciences Trust Fund (the Act). Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We have been informed that the National Institute of Building Sciences interprets the provisions of the Act to include as nonfederal funding all funds received from nongovernmental sources, including unrestricted and restricted donations, membership dues, meetings revenue, interest and other miscellaneous income.

In our opinion, the statement of nonfederal funding referred to above presents fairly the nonfederal contributions received by the National Institute of Building Sciences for the year ended September 30, 1984, on the basis indicated in the preceding paragraph.

Arthur Young & Company

December 20, 1984

NATIONAL INSTITUTE OF BUILDING SCIENCES

STATEMENT OF NONFEDERAL FUNDS RECEIVED

YEAR ENDED SEPTEMBER 30, 1984

Donations-unrestricted	$ 359,500
Donations-restricted	34,150
Member dues	137,722
Annual meetings and seminars	28,256
Other	12,461
Total	$ 572,089

Notes to Statement

1. General

This statement includes revenue received from nonfederal sources during the year ended September 30, 1984, for donations (restricted and unrestricted), member dues, meeting and seminar fees, publication and subscription income, and interest. It does not include income from contracts and grants for work performed and does not include pledges receivable.

2. Donations

The Institute recognizes donations as revenue when received except for donor restricted donations for which revenue recognition is deferred until the event for which the donation was made occurs. For purposes of this statement, restricted donations represent funds received during the year rather than revenue recognized.

3. Member dues

The Institute's membership fees are in substance contributions and accordingly are recognized as revenue when received.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

JAN 2 1985

December 26, 1984

MEMORANDUM FOR: GENE BREWER
PRESIDENT, NATIONAL INSTITUTE
FOR BUILDING SCIENCES (NIBS)

FROM: CAROL WEATHERLY Carol Weatherly
BUDGET EXAMINER

SUBJECT: Transmittal of Review of 1986 Budget

This memorandum confirms that the funding arrangement established by P.L. 98-396 will serve as the source of Institute's 1986 Federal support.

To wit, the Institute will receive a payment of up to $500,000 in 1986, contingent upon receipt of at least $500,000 of private sector support in Fiscal Year 1985, subject to review by a private accounting firm and the Finance Division of the U.S. Treasury.

NATIONAL INSTITUTE OF BUILDING SCIENCES

Priority Programs 1985

* Indoor Air Quality: Prepare a state-of-the-art report to assist in educating the nonscientific sectors of the building community about the extent to which indoor air contaminants present a technological problem to the construction industry. Work with the Environmental Protection Agency, the Department Energy and other agencies to assist in the coordination of private sector contribution to and beneficial use of on-going research.

Asbestos in Schools and Public Buildings: The Environmental Protection Agency (EPA) is developing standards for the assessment and abatement of asbestos in schools. Under contract to EPA, NIBS will convene building community representatives and comment upon the appropriateness of EPA plans and actions to administer grants to schools for asbestos removal.

Toxicity in Building Fires: Explore the impact on building codes and standards of current technology with respect to toxicity of combustion products in building fires. Develop guidelines for product manufacturers, design professionals, and code officials addressing the proper use of test data on combustion by-products.

* Facility Start-Up, Operation & Maintenance: Working with the U.S. Veterans Administration (VA), NIBS has established a comprehensive program for improving the operation of new hospital facilities and is developing guidelines for facility start-up. The VA is the largest provider of medical care among federal agencies.

* Building Product Approval Practices and Needs of the Building Community: Document and assess current practices and needs for regulatory and non-regulatory building product approval practices in the United States. Develop practical ways to organize the nation's multifaceted building products approval processes into an efficient, well-coordinated, voluntary, nationally recognized system which responds to assessed fundamental needs.

* Annual Housing Technology Research Agenda: Conduct a series of building community workshops and generate the second version of a national housing technology research agenda. Funds from HUD and DOE will provide the basis for work to be carried out in 1985.

* Consultation with National Bureau of Standards: At the urging of the U.S. Congress, NIBS and NBS have signed a Memorandum of Understanding setting forth areas of cooperation and information exchange. One important aspect of the MOU calls for NIBS to provide input and advice to the Bureau as it establishes its annual research agenda for the Centers for Building Technology and Fire Research.

Advise & Assist Government Agencies: Pursuant to the Institute's enabling legislation (Sec. 809, P.L. 93-383) all agencies of the Federal government are urged to rely upon findings and recommendations set forth by NIBS. With respect to the use of consensus based findings, recommendations, codes, standards, regulations and other technical data about buildings, the Institute will continue to provide authoritative source of useful information.

* Performance Standards: Key to the Institute's mission is recognition and promotion of performance based standards for use in the design and construction processes. NIBS will conduct symposia to foster understanding in the building community of the relevance and application of performance criteria and standards to the building process.

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* Programs funded and underway as of December 1984.

In addition to the priority programs listed above, the Institute is involved with many other issues of current interest. For example:

- International Standardization
- Quality Control in Construction
- Building Use & Safety Technology
- Technically Oriented Seminars and Conferences
- Building Seismic Safety Provisions
- Computer Applications in Design and Construction
- Building Energy Conservation

NIBS OPERATING POLICY

The Board of Directors of the National Institute of Building Sciences has conducted a review of current operating policies and has determined that the Institute would benefit from a clear statement of operating principles, including financing, to be applied in all matters in which the Institute becomes involved.

The Board of Directors review confirmed that finances play a major role in the selection of, and preparation of a response to, issues and calls for advice and assistance brought to the attention of the Institute by both the public and private sectors. The availability of funds also influences the Institute's ability to provide the forum through which broadly based consensus decisions and recommendations can be reached.

The National Institute of Building Sciences has a consensus determination process that functions through its Consultative Council which was authorized in Section 809(c)(8) of Public Law 93-383, which states:

> "The Institute shall establish....a Consultative Council, membership in which shall be available to representatives of all appropriate private trade, professional, and labor organizations, private and public standards, code and testing bodies, public regulatory agencies, and consumer groups, so as to insure a direct line of communication between such groups and the Institute and a vehicle for representative hearings on matters before the Institute."

The consensus procedure as established brings to the determinations process wide spread representation from within the building community and has been invaluable in NIBS accomplishments to date. Therefore:

> NIBS WILL CONTINUE TO UTILIZE THE CONSULTATIVE COUNCIL TO PROVIDE THE CONSENSUS PROCESS FOR THE DETERMINATION OF RECOMMENDATIONS ON ISSUES, MEANS AND QUALITY OF RESULTS.

In order to support the Consultative Council, a small core staff and the Board in the determination, through the consensus process, of issues that need to be addressed in priority order according to the nation's needs, an annual unrestricted income is required. That income should be sufficient to provide for wide spread dissemination of NIBS results and activities, the provisions of advice to the Congress, and the maintenance of relations with the states and their subdivisions as well as all interested in construction. The Congress, recognizing the need for operating funds, said in Section 809 (t)(1):

> "The Institute is authorized to accept contracts and grants from Federal, State and local governmental agencies and other entities, and grants and donations from private organizations, institutions, and individuals."

And, in Section 809(g)(3) said:

> "Every department, agency and establishment of the Federal Government having responsibility for building or construction or for building or construction related programs is authorized and encouraged to request authorization and appropriation for grants to the Institute for its general support..."

Additionally, P.L. 98-396, the fiscal year 1984 Supplemental Appropriations Act, directs the U.S. Treasury to establish a trust fund for NIBS. Interest earned by the trust fund is available to the Institute on an annual basis in an amount equal to the prior year nonfederal contributions received by the Institute.

Unencumbered Federal grants, private sector contributions and trust fund income combine to provide the unrestricted income necessary for maintenance of working relationships and activities related to achieving consensus determinations on a majority of the issues brought before the Institute. Therefore:

> NIBS WILL ANNUALLY SOLICIT GENERAL SUPPORT CONTRIBUTIONS FROM THE PRIVATE SECTOR FOR OPERATING FUNDS TO BE MATCHED BY FUNDS AVAILABLE FROM THE INTEREST EARNED BY THE NIBS TRUST FUND.

Each issue brought to the attention of the Institute must be subjected to a determination of how best to arrive at a recommendation or decision concerning it. Those with expertise and experience in the matter at hand and those with a stake in the outcome should be contributors to its resolution. Congress suggested in Section 809(3)(2):

> "The Institute in exercising its function and responsibilities described in paragraph (1) shall assign and delegate, to the maximum extent possible, responsibility for conducting each of the needed activities described in paragraph (1) to one or more of the private organizations, institutions, agencies and Federal and other governmental entities with a capacity to exercise or contribute to the exercise, of such responsibility, monitor the performance achieved through assignment and delegation and, when deemed necessary, reassign and delegate such responsibility."

Therefore on each issue, wherever possible:

> NIBS WILL DETERMINE WHICH ORGANIZATION(s) IS MOST CAPABLE OF TIMELY RESOLUTION OF THE ISSUE, WORK WITH THAT ORGANIZATION TO DEVELOP FUNDING FOR THE PROJECT AND PROVIDE, THROUGH THE CONSULTATIVE COUNCIL, THE CONSENSUS PROCESS "TO MONITOR THE PERFORMANCE ACHIEVED." IN THOSE INSTANCES WHERE NO ORGANIZATION EXISTS TO ACCOMPLISH THE WORK, THE ORGANIZATION REFUSES THE TASK, OR PERFORMS POORLY, NIBS WILL CONDUCT THE WORK.

Finally, Congress expressed the wish for NIBS to become the "single authoritative nationally recognized institution to provide for the evaluation of new technology..." and in (g)(1) directed

> "Every department, agency and establishment of the Federal Government in carrying out any building or construction, or any building or construction-related

> programs, which involves direct expenditures and in developing technical requirements of any such building or construction, shall be encouraged to accept the technical findings of the Institute, or any nationally recognized performance criteria, standards, and other technical provisions for building regulations brought about by the Institute, which may be applicable."

And in (g)(2)

> "All projects and programs, involving Federal assistance in the form of loans, grants, guarantees, insurance, or technical aid, or in any other form, shall be encouraged to accept, use, and comply with any of the technical findings of the Institute, or any nationally recognized performance criteria, standards, and other technical provisions for building codes and other regulations brought about the Institute, which may be applicable to the purpose for which the assistance is to be used."

In addition, in the aforementioned (f)(1) and in the remainder of (g)(3), Congress provided the funding mechanism for the necessary support.

> "Every department, agency, and establishment of the Federal Government having responsibility for building or construction, or for building or construction related programs, is authorized to contract with and accept contracts from the Institute for specific service where deemed appropriate by the responsible Federal official involved."

These Congressional mandates provide the framework for two types of service to governmental agencies as follows:

> NIBS WILL REQUEST APPROPRIATE FEDERAL AGENCIES TO INCLUDE IN THEIR ANNUAL BUDGET FUNDS NECESSARY TO ENABLE NIBS, THROUGH THE CONSENSUS PROCESS, TO DEVELOP AND SUGGEST AN ANNUAL BUILDING-RELATED RESEARCH PROGRAM AND TO MONITOR ITS PROGRESS. WHERE SUCH SUPPORT IS NOT FORTHCOMING, NIBS WILL REQUEST THE APPROPRIATE CONGRESSIONAL COMMITTEES TO ENCOURAGE THE AGENCIES TO MAKE SUCH CONTRACTS OR GRANTS. IN ADDITION, NIBS, TOGETHER WITH OTHER APPROPRIATE ORGANIZATIONS, WILL REQUEST CONTRACTS OR GRANTS FOR SUPPORT OF NEEDED WORK IN THE AREA OF EACH AGENCY'S INTEREST. IN THOSE CASES WHERE THE WORK IS ALSO OF INTEREST TO THE PRIVATE SECTOR, NIBS WILL ATTEMPT TO RAISE MATCHING FUNDS.

The Board calls on all parties to cooperate in the implementation of these four principles as sound operating procedures which will facilitate the recognition of the Institute as the "authoritative national source" that Congress called for in adopting P.L. 93-383.

STATEMENT SUMMARIZED

Mr. MOSES. Thank you, Senator.

We want to express our sincere appreciation for the opportunity to be here today and share the activities of NIBS with you. Accompanying me is Brian Landergan, who is Senior Vice President and Acting Comptroller of the Institute.

TRANSITION YEAR

Thus far fiscal year 1985 has been a rather cautious year of transition for NIBS. We are nearing the close of the second quarter. We are pleased with the progress we made in our private-sector fund-raising initiative. Now with the funds made available from the trust fund, we are able to maintain our momentum in several of our mission programs.

Of foremost interest to the subcommittee is the fact that in fiscal year 1984, we received $572,089 in private grants, donations, and membership dues. In keeping with our agreed-upon systems of matching contributions from the preceding fiscal year with interest earned on the $5 million Treasury trust fund, we are eligible to receive $500,000 from the Treasury in 1985. This concept seems to be working well and we extend our appreciation to this committee, Senator Garn and you, Senator Proxmire, for your effort and the leadership that made possible this trust fund mechanism.

Without doubt, the newly established trust fund has become the cornerstone of our financial base and we believe other congressional committees might take note of this important mechanism for potential use with other public interest programs. Now in our seventh year of operation, we have refined our long- and short-range planning process to involve those building science issues that most directly impact all of society. This year, the Institute's Consultative Council recommended pursuit of some nine short term efforts and an additional seven programs of long range interest.

PRIORITY LIST

Our priority list includes indoor air quality, asbestos, toxicity, facility startup, building product approval, housing research agenda, advice to the National Bureau of Standards, advice to various Government agencies, and performance criteria for codes and standards. I am happy to report to you that activities are underway in each of these nine areas supported by contracts, grants, or funds made available by the trust fund.

Of longer range interest, our efforts will be directed to international standards, quality and construction, building use and safety, technically oriented seminars, building seismic safety, computer applications in design and construction, and building energy conservation.

SEISMIC DESIGN GUIDELINES

The Institute has performed some work in each of these areas. With financial support provided by the Federal Emergency Management Agency, the Building Seismic Safety Council has generated useful information in the form of guidelines for seismic design in retrofit in earthquake-prone regions of the country. This program will contribute significantly to enhance life safety in buildings. And FEMA also depends on appropriated funds to support its earthquake hazard mitigation initiative, we would encourage the subcommittee to recognize the excellent work being performed in response to FEMA's mandate and maintain financial support for the elements identified in FEMA's 5-year plan for earthquake hazard mitigation.

Another Council formed under the aegis of NIBS was the Building Thermal Envelope Coordinating Council. They are actively identifying ongoing and needed research efforts relating to improved thermal performance of materials, equipment, and components used in building shells.

A third Council was formed in 1984 on Protection of Buildings from Wood Destroying Organisms. The goal of the Council is to promote the develop and use of safe and effective control technologies for the general protection of new and existing buildings from damage by wood-destroying organisms.

Throughout 1984 and into 1985, the Institute has made very real strides in bringing the various public and private elements of the building community together to debate their different perspectives and distinguished fact from fiction. Perhaps the broadest local potential impact of the discussions, NIBS has hosted between the fire service and building code of firms. A number of meetings over the last 2 years have shown that constructive dialog between these routes can significantly enhance the relationship between two important community groups and we have also proven it can effective lower construction costs.

WORK OF INSTITUTE

The Institute's work, beyond that enabled by our grants and trust fund, requires time, patience, and financial resources. As that authoritative source of information and advice, NIBS is often called upon to render technical judgment on matters impacting consumers, recommend expert witnesses for litigation, provide speakers and resource documents for conferences and important meetings, and to maintain contact with State and local governments as to the appropriate use of building technologies and building codes.

This activity is immensely valuable to the public, however, and it is expensive to maintain. Nevertheless, we provide as much assistance as is affordable within the bounds of our annual budget. In short, we can't always respond to all that is expected of us, though try as we may, the need for our services and our processes exceeds our current ability to satisfy that need.

For the subcommittee's information, we have included with our statement our newly adopted operating policy which clearly spells out the types of work that we will endeavor to perform in future years. This policy recognizes that the Institute is really in the knowledge business and that the sources of our knowledge are the many societies, associations, corporations, and individuals that comprise the varied aspects of the building community. In the coming months, we expect to become increasingly involved in several issues with several agencies within the jurisdictions of this subcommittee.

ASBESTOS ABATEMENT AND REMOVAL

Last summer, we advised this subcommittee against the appropriation of funds to EPA for asbestos abatement and removal until such time as adequate hazard assessment models and abatement guidelines have been developed. As of this date, the models and guidelines we advised were needed are still nonexistent. Discussions with EPA staff have produced a recognition at the agency that NIBS is a source of expertise on the asbestos issue, but to date no work plan has been proposed by EPA. We stand ready to assist EPA in a timely manner as they are called upon to meet legislative deadlines.

Similarly we stand ready to assist with efforts in indoor air quality and toxicity in building fires when adequate support from EPA, CPSC, and other affected agencies become available. We are continuing our work in developing a housing research agenda for the nation as well.

Mr. Chairman, as mentioned earlier, the Institute considers one of its significant resources, the enormous commitment of volunteer time and in-kind services devoted to Institute work by the private sector. We estimate that the time of our volunteer members alone over the course of a year is worth in excess of $1 million. This is a substantial contribution in and of itself and as our membership grows, this expertise obviously will increase.

In conclusion, we appreciate the opportunity to return again this year and to thank the committee for the continuing efforts on our behalf. The building community is truly grateful for the important precedent set in motion as a result of our matching trust fund. The private sector has accepted the challenge conceived by this committee and our members recognize they must initiate contributions to allow the trust fund to really effectively be utilized. This is tangible evidence of a practical working relationship between government and the private sector.

Thank you for having us back to report on our progress.

Senator Proxmire. Thank you very much, Chairman Moses. I appreciate your statement. And I want to congratulate you and your organization for moving toward the trust fund goal. I understand you raised over half a million dollars and that the Federal Government will match the $500,000 this year, so you achieve success and I hope that that success increases so that you won't need any matching, you can do it all privately.

How are your efforts toward the goal of proceeding and do you have a fund raising goal for 1985?

PRIVATE-SECTOR SUPPORT

Mr. Moses. Senator, as you pointed out, in 1984, we did conduct a rather broadly based campaign for private-sector support and we think we achieved some substantial results. Some 50 firms and organizations made contributions to our program. The President of the Institute, Mr. Brewer, has made this his principal task and he plans to continue this effort throughout the following year. Last year's contributors and some new prospects are being contacted this year. Already several new contacts have become contributors. We are also strengthening our membership and public information effort and as we become better known and understood we will be able, we believe, to attract more substantial support.

We expect to at least exceed the $572,000 we reached in 1984. It obviously is our goal to secure the maximum amount of funding that we can achieve each year as well.

Senator PROXMIRE. Thank you very much, sir.

HOUSING RESEARCH AGENDA

I am going to ask that you answer other questions for the record, with one exception that I would like to ask. On page 7 of your statement, the housing research agenda is described as being underfunded by HUD. What exactly is the nature of that study and what do you expect to accomplish by the end of the current fiscal year?

Mr. MOSES. Senator, we started out asking for some $250,000 to do a rather broad-based research agenda to determine exactly what was necessary and is necessary in order to establish a research agenda in the housing market. We had a $25,000 contract last year and will have a similar contract for the coming year. We have conducted a survey to determine the building community needs and we reviewed the results and the committee and that is being processed in a report that will be given to HUD. We certainly will be pleased to provide a copy of that to this committee. We would hope that as that study expands, we will be able to develop a series of information items that will help the research agenda for the housing market in this country.

Senator PROXMIRE. You said it is underfunded. You asked for $250,000. How much did you get?

Mr. MOSES. $25,000.

Senator PROXMIRE. You got 10 percent?

Mr. MOSES. Yes, sir.

Senator PROXMIRE. It is underfunded.

Mr. MOSES. It is difficult to do a broad-based research program with such limited funds. Obviously we will be able to contribute some additional funds now that we can utilize some of the funds from the trust fund which we now have, which we did not have last year. However, it is very obvious for those kind of costs we still need additional funding other than that which we can take out of the trust fund.

Senator PROXMIRE. We will have to see what HUD has to say about that. That seems like a logical and reasonably modest expenditure considering the size of the HUD budget.

Thank you very much, sir.

Mr. MOSES. Thank you.

SELECTIVE SERVICE SYSTEM

STATEMENT OF GEN. THOMAS K. TURNAGE, DIRECTOR

ACCOMPANIED BY DAVID COX, ASSOCIATE DIRECTOR FOR MANAGEMENT SERVICES

BUDGET REQUEST

Senator PROXMIRE. Our next witness is General Turnage, Director of the Selective Service.

We are happy to have you here. I have a 23-year-old son who registered about 5 years ago. It conducts a nonregistrant identification program, maintains a data base of registrant records and conducts training to insure a rapid mobilization capability.

In fiscal year 1986, the Selective Service System is requesting $27,400,000 and 276 positions. This is a decrease of $400,000 from the fiscal year 1985 appropriation. There are now over 13.6 million registrants in the system compared to last year's 11.6 million.

I will be happy to hear a summary.

General TURNAGE. I haven't had the privilege to testify before you, and I am delighted to do so. I am joined by David Cox, Associate Director for the Management Services in the Selective Service System.

Mr. Chairman, I am pleased to be able to come before you again and report that the Nation's Selective Service System is alive and well and improving every day. Support from the general public continues to grow and we now have well over 13,600,000 young men registered in the System. In calendar year 1986 we will start removing men from the System as they reach their 26th birthday.

MOBILIZATION

We know we are ready. We have exercised the call-up system enough to learn that it works. The mailgrams will go out and the induction system can start up if needed by our country. We have our volunteer boards trained to begin work tomorrow if needed. We continue to update our manuals and forms to improve the System, but the essentials are all in place.

The establishment of the registrant information and management systems [RIMS] for processing emergency inductions has improved our mobilization capability significantly. In fiscal year 1984, RIMS training conferences were held in each of our six regions to instruct Selective Service personnel and National Guard and Reserve officers in the new procedures. A prototype area office was installed at the national headquarters to simulate mobilization activities and initial appointments of civilian review board members were accomplished.

REGISTRATION

Our registration program continues to do well, and over 98 percent of the nation's draft eligibles are signed up. The Solomon amendments, we feel, have contributed to this effort. This has been done with the aid of the Department of Education, our colleges and universities, as well as the Department of Labor and State offices concerned with the Job Training Partnership Act Program. The military services are also registering young men upon enlistment and separation.

STATE ACTIVITY

We were pleased this last year when the Supreme Court upheld the constitutionality of the Solomon amendment. That decision encouraged similar legislation at the State level. For example, Tennessee adopted a statute this year which requires compliance with the registration provisions of the Military Selective Service Act as an eligibility requirement of enrollment in any postsecondary State school. This was challenged as unconstitutional in a case filed in the U.S. District Court in Nashville. The decision of the court, which upheld the Tennessee law, has been appealed.

A total of four States now have laws linking State financial educational aid with verification of registration for Selective Service. Other States are considering similar legislation. Such activity is significantly helpful to our continued registration efforts.

PUBLIC SERVICE

All of our increased emphasis on registration has generated a growing volume of inquiries concerning registration and we are meeting that need through a toll-free 800 telephone number which provides informational service to the public and, in particular, registrants and potential registrants. This part of our service will continue to grow. We also provide assistance to sympathetic organizations and Government agencies which require compliance on the part of their members, such as State bar associations and law enforcement agencies.

FUNDING

The funding we are requesting for fiscal year 1986 is something less than we would like, but is in line with the general belt tightening throughout the administration in an effort to cut the budget deficit. Therefore, our fiscal year 1986 request is essentially a freeze on any expansion of our activity, either in programs or personnel. The amount, $27,384,000, represents a reduction of $396,000 below fiscal year 1985 appropriation.

PUBLIC AWARENESS

The public awareness activities of Selective Service have promoted a nationwide political and social consensus supporting peacetime registration. This once controversial program is now fully acceptable as the logical basis of a sound preparedness capability, as is evidenced by our high compliance rate, citizens are now volunteering for unpaid positions on local, appeal, and civilian review boards, and public inquiries for registration information are at record highs. Obviously, public perception of the agency's administration of compulsory registration is one of credibility and fairness. This is due to a combination of incisive public awareness campaigns and thoughtful regulatory and implementing procedures.

PERSONNEL

Our workforce remains small with only 277 full-time personnel, and this will remain unchanged in the next fiscal year. We continue to be a largely volunteer agency in the sense that we have over 11,500 uncompensated volunteers to run our local, appeal, and civilian review boards when inductions are occurring, who only receive expenses when being trained.

COMPLIANCE

As I have stressed on many occasions, our goal is registration, not prosecution, but the enforcement of the law has to take place. A new indictment took place in Syracuse, NY, where Andrew L. Mager was found guilty last month and sentenced to prison. The one fugitive in a Selective Service case, Paul Jacob, has been apprehended and is currently awaiting trial.

Our compliance letter mailing continues to pick up most of the late registrants and has produced over 880,000 additional registrations. Many of the remainder are persuaded to register after they learn the FBI is actively investigating their case. We continue to send the names of potential violators to the Justice Department for processing.

INITIATIVES

We plan three major initiatives for fiscal 1986. First, regulations and procedures for induction processing of registrants residing overseas will be developed and published; second, RIMS will be revised to include procedures for a backup operational system; and third, an alternative method for induction processing, after the initial surge of a mobilization draft will be developed. This alternative method of induction will provide for classification and examination of registrants prior to the induction order.

CONCLUSION

Selective Service operation and programs can be maintained at the requested level of funding for the fiscal year 1986, although considerable belt tightening will be required.

Thank you, sir, for your kind attention, and that concludes my statement.

[The statement follows:]

STATEMENT OF THOMAS K. TURNAGE

Mr. Chairman, I am pleased to be able to come before you again and report that the Nation's Selective Service System is alive and well and improving every day. Support from the general public continues to grow and we now have well over 13,600,000 young men registered. In less than two years, we will start dropping the older registrants out of the system as they reach age 26.

MOBILIZATION

We know we are ready. We have exercised the call up system. The mailgrams will go out and the induction system can start up if needed by our country within a day of an emergency declared by the Congress and the President. We have our volunteer boards trained to begin work tomorrow if needed. We continue to update our manuals and forms to improve the system, but the essentials are all in place.

The establishment of the Registrant Information and Management Systems (RIMS) for processing emergency inductions has improved our mobilization capability significantly. In Fiscal Year 1984 RIMS training conferences were held in each of our six Regions to instruct Selective Service personnel and National Guard and Reserve Officers in the new procedures. A prototype area office was installed at the National Headquarters to simulate mobilization activities and initial appointments of Civilian Review Board members were accomplished.

Selective Service participated in a national level mobilization exercise with DOD which started late in Fiscal Year 1984 and continued into early Fiscal Year 1985. This exercise evaluated the Agency's ADP plans, policies and procedures to select inductees, call them for service and also evaluated the mobilization capabilities of the Military Entrance Processing Command (MEPCOM).

Selective Service will also participate in the biennial joint Department of Defense/civilian agency mobilization exercise which will be held during Fiscal Year 1985 and Fiscal Year 1986. Participation will include the OSD/JCS pre-exercise planning and development phase, operational exercise play and the post-exercise critique and evaluation. The purpose of the exercise is to test and evaluate the plans and procedures to:

- select and call for induction, and process registrant claims postponement, deferment or exemption;
- deliver registrants to Military Entrance Processing Stations across the country using the induction mailgram and travel warrant;
- place Alternative Service workers in appropriate jobs; and
- interface with MEPCOM, DOD and the Federal Emergency Management Agency (FEMA).

There will be essentially three elements of standard exercise play:

(1) National Headquarters planned response to DOD and FEMA requirements;

(2) Exercise of the area offices and Alternatives Service offices and their associated boards; and

(3) Exercise of the ADP plan and the exchange of data between Selective Service, MEPCOM and other DOD elements.

ENHANCED MOBILIZATION CAPABILITY

Our mobilization capability has been enhanced with automated administrative systems. Our Reserve Forces Automated Personnel System maintains data and produces reports on the National Guard and Reserve Forces Officers assigned to Selective Service. This system provides on-line data entry, including edit and update, on-line data base inquiry and retrieval for report generation, and an ad hoc report generation capability. The system also produces mailing labels and form letters, such as letters to the individual officers' parent services requesting the issuance of annual training orders. In addition to personal information, such as military education achievements, this system also includes data on the mobilization assignment of each officer. The system has given us the capability to better manage our pool of Reserve Forces Officers during both current activities and any future contingencies.

REGISTRANT INFORMATION AND MANAGEMENT SYSTEM (RIMS)

Induction and Claims Processing. RIMS is a highly sophisticated and automated registrant processing system which has been developed by Selective Service. It is a system that permits prompt, impartial and uniform implementation of the Selective Service law and regulations. It takes advantage of the management potential available through the use of automated data processing technology while preserving the essential quality of individual claim consideration by Local and Appeal Boards. This system integrates the processing of registration, induction and claims information.

The RIMS manual, containing the procedures and instructions to operate the system, was published in June 1983. From January to April 1984, 3 day training conferences were held in each of the six regions to instruct Selective Service personnel as well as National Guard and Reserve Officers in the new procedures. A seventh conference was held in Washington, D.C., for headquarters personnel. Recommendations for improvement of the registrant processing procedures and the RIMS manual were made at each of the conferences. Many of these recommendations have been adopted and have been incorporated in the revision of the RIMS manual that was released earlier this month.

In August 1984, a prototype area office located in the National Headquarters building began simulating operations and a wide variety of RIMS procedures are being tested. These tests will continue in Fiscal Year 1985 and findings will be incorporated into the RIMS manual review process. The suggestions and improvements recommended as a result of the conferences and tests will be included. Changes to the RIMS manual will be published and the RIMS automated systems will be revised as required.

REGISTRATION

Our registration program continues to do well, and over 98% of the Nation's draft eligibles are "signed up." The Solomon Amendments, we feel, have contributed to this effort. This has been done with aid of the Department of Education, our colleges and universities, as well as those persons concerned with the Job Training Partnership Act program. The military services are also registering young men upon enlistment and in June of 1984 we worked out an agreement with the DOD Dependent Schools that will function as a part of the in-place registration program conducted by the State Department.

Registration Improvement Program. Actual registration by eligible young men has been steadily increasing and gross numbers now exceed 13.6 million with the number of registered individuals who are draft eligible now in excess of 12 million. Although these are laudable figures, the agency recognizes the need to: monitor its accomplishments, identify areas of shortfall; direct special programs at areas below their potential; maintain programs in areas of success; and do everything within its power to assure a positive public image that supports registration.

Efforts supported by the Department of Labor have led to initiation of a national program to enable Job Training Partnership Act (JTPA) offices to register young men not registered, but are required to certify their registration before receiving job training benefits. Since the JTPA is a joint State and Federal funding effort, the individual States have been given the option of non-participation, but early responses and verbal contacts are indicative of general State support.

PUBLIC SERVICE

All of our increased emphasis on registration has generated a growing volume of inquiries concerning registration and we are meeting the need through a toll-free "800" telephone number which provides informational service to the public, and in particular to registrants and potential registrants. This part of our service will continue to grow. We also provide assistance to organizations and government agencies which require compliance on the part of their members, State bar associations and law enforcement agencies. This type of request will also increase in volume.

This service offers a great benefit to the public by providing a direct contact to Selective Service personnel having immediate access to the records from which information is extracted to answer the caller's questions. However, publication of the phone number by other practicable means has been withheld because of our inability to handle the workload that would result. By Fiscal Year 1986, we plan to include the "800" number on the registration acknowledgment letter that is sent to each registrant following registration and again each time he sends us information to update his record. The telephone number will also be published in verification letters.

Records research for requests from registrants born prior to May 1957 will continue at a steady rate through Fiscal Year 1985. The number of these requests is expected to reach 225 per week. It is estimated that 40% of these requests will be satisfied through research of the data base record. The balance will require referral to a Federal Archive and Records Center. Incoming phone calls have tripled in the last 14 months as have the number of letters. With an approaching data base of 16 million names, the Agency will soon have to augment its personnel in this field.

FUNDING

The funding we are requesting for Fiscal Year 1986 is something less than we would like, but is in line with the general belt tightening throughout the Administration in an effort to cut the budget deficit. Therefore, our Fiscal Year 1986 request is essentially a freeze on any expansion of our activity, either in programs or personnel. The amount, $27,384,000, represents a reduction of $396,000 below the Fiscal Year 1985 appropriation.

PUBLIC AWARENESS

Following reinstitution of registration in 1980, Congress has annually provided funds for a low cost public awareness program designed to motivate young men to register. This dynamic and multi-faceted public awareness campaign has been instrumental in gaining almost universal acceptance of the registration requirment. Congress has also enacted legislation (PL 97-252, PL 97-300) that helps promote public awareness of the registration requirement.

As a result, there now exists throughout the country a political and social consensus supporting peacetime registration. This support has permitted Selective Service to achieve a high rate of compliance with the registration requirement. Although registration has been a part of growing up for America's young men since 1980, Selective Service has a new audience to reach each day. Approximately 5,000 men reach age 18 every day and continued success in achieving and maintaining a high registration rate is dependent upon informing every young man approaching age 18 of the importance of registering.

Radio and television have assumed an important role in our public awareness effort. Although we purchase no advertising, we have been very successful in placing public service spots at radio and television stations throughout the country. An attention getting music-video television public service spot has won exceptionally wide acceptance. Featuring sharp colors, contemporary music, and incorporating break-dancing, our TV spots are highly visible and have won wide acclaim. As the number of cable subscriber homes increases, we plan to seek acceptance of our public service message by cable television. Additionally, we have produced spots for local markets featuring John Thompson of the Georgetown Hoyas and stars from the Super Bowl champions, the San Francisco 49ers.

Our radio public service announcements (PSAs) present the registration message in a colloquial and humorous manner, and have been developed for each of the various programming formats: rock, country, top 40, news-weather, etc. Radio is a key entertainment medium for young men and hundreds of radio stations rountinely report heavy play of our PSAs.

We will expand the impact of our music-video messages by use of outdoor advertising (billboards) and car cards (bus/subway) featuring the themes used in our television PSAs. All billboards and car cards will be displayed for us without charge as a public service.

Among our low-cost/no-cost public awareness efforts are the solicitation of registration awareness proclamations by city/county/state officials and the issuance of Certificates of Appreciation to individuals and organizations giving visible support to our programs.

We continually seek new outlets for our message by offering public service ads, at no cost to daily and weekly newspapers, to high school and college papers, and to magazines that are sports oriented, automotive oriented, etc. We will also be pursuing donated use of computerized, moving-lighted message boards. We have had exposure of our message through such attention getting modes as Goodyear Blimp signs and light plane trailing of the registration message over beaches during college spring breaks. We will be increasing our efforts to place Selective Service "reminder to register" stuffers in envelopes sent out by organizations who conduct large mailings on regular monthly billing cycles.

We will intensify our search for ways to reach that particularly elusive audience of high school dropouts and other young men living on the edge of society (often uneducated, unskilled, unemployed). Also, special efforts will be made to reach those Hispanics and others who have little or no fluency in English. Targeting of our public awareness efforts on localities having a registration rate below the national average will receive renewed attention.

Twice yearly mailing of posters and brochures to high schools and colleges will continue to be the cornerstone of our public awareness program. Additional exposure of the Selective Service message will be sought by continuing to schedule the Director and other key officials for media appearances, editorial board meetings and public speaking engagements throughout the United States.

PERSONNEL

Our workforce remains small with only 277 full-time personnel, and this will remain unchanged in the next fiscal year. We continue to be a largely volunteer agency in the sense that we have over 11,500 volunteers to run our Local, Appeal and Civilian Review Boards, which would function in an emergency.

RESERVE PROGRAM

During Fiscal Year 1985 and 1986 unit training assemblies will focus on preparedness for mobilization assignments. Each officer has a specific mobilization assignment to an area office, a Military Entrance Processing Station (MEPS) or to a Selective Service Headquarters. Officers with initial M-day assignments to area offices have a follow-on assignment to a position at a State, Region or the National Headquarters. These officers will report to their headquarters assignment after the area office is established and, therefore, must train for two assignments. The field structure has been divided into the following four mobilization segments for training and reconstitution purposes for Fiscal Year 1985:

- Area Offices: 436 area offices would be established by 446 Selective Service Reserve Force Officers. These officers will hire and train the civilian employees who will staff the offices and supervise office operations until the newly hired civilian employees are sufficiently trained to operate with minimum supervision. The Department of Defense will temporarily detail to Selective Service over 1400 recruiting personnel to augment and support this activity.

- Hqs. Support: 71 Selective Service officers have mobilization assignments to expand the 6 region headquarters and the national headquarters to meet the mobilization staffing mission requirements.

- MEPS Liaison: 70 Military Entrance Processing Station Liaison Offices would be established by 81 Reserve Forces Officers to meet Selective Service requirements in processing registrants for induction.

- State Hqs.: 55 State Headquarters would be established by 130 officers. These officers will form the mobilization cadre of trained professional staff for establishing, supervising and maintaining all Selective Service activities within the state or territory.

The Reserve Forces Officers and DOD recruiter augmentees require specific training in order to remain mobilization ready. Training and operational procedures must be continually reviewed and updated to prepare officers to function effectively upon mobilization. Mobilization plans must be kept current to include names, addresses and other essential data. The Reserve Forces Officers and the recruiter augmentees form the heart of our mobilization reconstitution capability. Selective Service must aggressively pursue a pre-mobilization training program to become effective and efficient at the time of mobilization.

In recent years the activities of the Selective Service Reserve Forces have evolved to include participation in peacetime mission operations in addition to mobilization training functions. The officers are the primary resource for local public awareness activities such as contact with media outlets and public speaking engagements associated with the registration improvement program. They participate in the recruitment of and conduct the training of volunteers serving on the various boards in the System. Reserve Forces Officers also provide the training for more than 1400 recruiting personnel who will be detailed to Selective Service upon mobilization. Improving registration statistics and maintaining the strength and training status of board members are two tasks of the highest priority: one in support of the registration program and one dedicated to mobilization readiness. Selective Service Reserve Forces Officers are singularly qualified to accomplish these tasks since they are located throughout the nation and specially trained in Selective Service functions. Application of their training time in this manner is both practicable and advantageous. It provides supplemental manpower resources to our small civilian staff and at the same time exercises and improves their skills.

Local, Appeal, and Civilian Review Boards. Joining the 2111 Local Boards and the 95 District Appeal Boards composed of volunteer civilians are the 48 Civilian Review Boards. Just as the Local and Appeal Boards constitute the heart of the claims and appeals process, the Civilian Review Boards (CRB) constitute the forums to which Alternative Service workers' appeals would ultimately be taken for adjudication. Such appeals occur when an Alternative Service worker's job assignment is no longer perceived by him to be compatible with his conscientious objection to military service. Like Local and Appeal Board members, CRB members are unpaid, and must be trained by a well designed and executed training program to assure their mobilization readiness.

All of the eleven thousand citizen volunteers receive a comprehensive initial training program. For Local and Appeal Board members, the initial training consists of a 12 hour seminar. For Civilian Review Board members, the initial training is a five hour program. Newly appointed members receive basic instruction in board duties and functions. This basic program utilizes lecture, video tape vignettes, role playing, participatory discussions and problem solving on an individual and group level. The training is designed to provide the members with a sound foundation from which advanced training can be undertaken on a continuing basis.

The continuing education component is fulfilled through training packets distributed to each board chairperson. Each of these packets contains facsimilies of case files for the boards to review and take appropriate action. These board training sessions are held on an annual basis and are of short duration (3 hours). As an economy measure, the training meetings have been convened locally on an individual board basis for the past two years. In Fiscal Year 1985, the 95 District Appeal Boards are scheduled to convene on a Region wide basis for refresher training that will provide a forum in each region for the teaching of new procedures in registrant processing. In Fiscal Year 1986, the 2111 Local Boards are scheduled to convene in collective group sessions. To enhance the quality of the continuation training program, as well as increase the opportunity for the Reserve Forces Officers to meet with their board personnel, the Fiscal Year 1986 training sessions are designed to be conducted on an area office wide basis, thus the 2111 boards would convene in 436 locations.

An overview of the training status of the uncompensated personnel as of August 1984 is as follows:

	no. mbrs appointed	% of mbrs trained
Local Boards (2111)	10,122	94.3
Appeal Boards (95)	469	99.1
Civilian Review Boards	475	18.1
	11,066	

ALTERNATIVE SERVICE

We continue to refine our plans for Alternative Service, and our automated system for handling such service is scheduled to be completed by the end of March.

Progress was made on the automated case tracking and monitoring system for Alternative Service workers. The system specifications and functional requirements were developed. Programming of the system was completed in 1984. Also during Fiscal Year 1984, the appointments of Civilian Review Board members were accomplished. Starting with a residual pool of almost 5,000 excess applications for Local and Appeal Board member positions, plus new applicants, approximately 1,000 were chosen for initial screening. From this pool, 475 volunteers were selected and appointed as Civilian Review Board members. Training sessions for some of these members began in June 1984. These initial training sessions will be concluded in Fiscal Year 1985.

During Fiscal Year 1985 the automated segments of the Alternative Service program will be completed and system testing will begin. In addition to the ADP systems tests, the implementing procedures will be tested during agency and interagency exercises using simulated Alternative Service worker data. Also, the network of federal agencies and national associations that would facilitate the placement of alternative service workers will be maintained and expanded. By Fiscal Year 1986, the Alternative Service program will be fully developed and all elements will be maintained at a mobilization readiness level.

COMPLIANCE

As I have stressed on many occasions, our goal is registration not prosecution, but the enforcement of the law has to take place in order to achieve fairness and equity. A new indictment took place in Syracuse, New York where Andrew L. Mager was found guilty, and sentenced to six months in prison. The one fugitive in a Selective Service case, Paul Jacob, has been apprehended and is currently out on bail, awaiting trail.

Compliance Program. Since registration was reinstituted, more than 13.6 million men have registered. Individuals currently draft eligible, i.e., born 1960-1965, have a compliance rate of over 98%. The agency believes that the small percentage of men failing to register do not realize they are required to register or tend to procrastinate in fulfilling their obligation. Failure to register is not a victimless crime. Each man who does not register increases the draft vulnerability of those who do register. Therefore, a strong inducement to comply with the law is imperative and requires an active compliance program. Such a program ensures that the young men of this nation are treated in a fair and equitable manner.

An effective compliance program is founded upon the ability to: (a) identify individuals who need further stimulation to register and (b) provide reminders to individuals of their obligation. Intensive efforts by Selective Service and the support of various state and local governments and other federal agencies have enabled us to implement a compliance program with meaningful national impact. As an example, data from the following sources are an integral part of the compliance program:

- State drivers' license records - these records are currently obtained from 51 states and territories, and provide the heart of the compliance program.
- High school student lists - in a number of areas, especially those areas identified as having high registration shortfall, these lists have been made available.
- Voter registration lists - emphasis upon acquiring these lists has been primarily in states with an above average registration shortfall.
- Federal Aviation Administration - The Nationwide Airmen Directory containing data on licensed pilots/aircraft is also a list of potential registrants.
- Social Security Administration - provides data on men of registration age.
- Department of Defense/Department of Transportation - cooperation of these agencies enables us to identify individuals subject to registration who are:
    - members of reserve components including the National Guard and U.S. Coast Guard Reserve.
    - former members of the active military (DOD only) who at the time of separation from active duty are not registered.
- Veterans Administration - records provided through the efforts of this agency enable us to identify former military who may be unaware of their obligation to register, if still of registration age.

The lists of potential registrants are matched with our master registrant file. This process deletes the names of men who have registered. The remaining names are then matched against DOD and Department of Transportation (Coast Guard) records to remove the names of active duty military personnel. After completion of this process, compliance letters are mailed to men identified as suspected nonregistrants. The compliance letter informs the individual of the registration requirement and provides a form on which he may register.

All of the sources identified above and a DOD commercially compiled list are utilized in a registration awareness program. Where a date of birth is specified, a reminder card is sent immediately before the individual reaches age 18. If the date of birth is not specified, a reminder card is sent in a three month period starting in December before the year in which the man will reach age 18.

As of January 1985, over 880,000 registrations had been received as a direct result of the compliance letters. A second letter is sent to potential violators who fail to respond to the initial mailing. The names of those men who fail to register are subsequently referred to the Department of Justice for prosecution. Many of the remainder are persuaded to register after they learn the F.B.I. is actively investigating their case. We continue to send the names of potential violators to the Justice Department for processing.

In 1986 the continued successful operation of these programs will require constant monitoring, analysis, and adjustment to meet the changing needs of the various target cities and states.

STATE ACTIVITY

We were pleased this last year when the Supreme Court upheld the constitutionality of the Solomon Amendment. That decision encouraged similar legislation at the State level. For example, Tennessee adopted a statue this year which requires compliance with the registration provisions of the Military Selective Service Act as an eligibility requirement of enrollment to any post-secondary State school. This was challenged as unconstitutional in a case that was filed in the U. S. District Court in Nashville. The decision of the court upheld the Tennessee law. This decision has been appealed. The State of Massachusetts also now has a law linking state financial educational aid with verification of registration for Selective Service. Together with Mississippi and Illinois, this makes a total of four states having such laws. We have been informed that other states are considering similar initiatives. Such activity is significantly helpful to our continued registration efforts.

AUTOMATED DATA PROCESSING

In the recent Selective Service revitalization years, automation has been a key factor contributing to the significant strides made in increasing personnel productivity, attaining the capability to meet Department of Defense untrained manpower needs in an emergency, reducing operating expenses, and giving agency officials timely data with which to manage their administrative and operational activities.

Selective Service ADP automated data facilities include the Data Management Center and Joint Computer Center, both located in Illinois, and the Alexandria Computer Center located in Virginia. The Data Management Center provides the data entry, error correction, mail, logistics, and computer operations support required to process continuous registration. The Joint Computer Center, established jointly by Selective Service and the Military Entrance Processing Command (MEPCOM) handles the data processing requirements of continuous registration as well as the development of computer systems for inductions, claims, appeals and compliance. Programmers and anaylsts responsible for developing new systems and maintaining existing systems are located at the Alexandria Computer Center, which also houses the computer used for administrative applications.

A telecommunications system connects these offices and our National and Region Headquarters. Telecommunication requirements increased in Fiscal Year 1984 due to increased access from the National Headquarters building to the Computer Center in Alexandria and increases at the six Regional Headquarters due to expanding workload and support to both NBI and area office type terminals. These requirements will continue in Fiscal Year 1985 and beyond. In Fiscal Year 1984 leased hardware equipment was purchased thus substantially lowering rental costs in future years.

During the latter half of Fiscal Year 1984, routine nontechnical tasks at the Data Management Center were contracted out to private firms. This practice is continuing in Fiscal Year 1985. This is being done so Selective Service employees can be shifted from these research tasks to the registration information area to assist in handling the inquiry workload. By exercising this option, backlogs have been kept to manageable levels without an increase in authorized positions. However, we have reached a practical limit on identifying new tasks that can be contracted out while at the same time limiting access to registrants files to our own employees. Improvements and efficiencies that can be realized through management initiatives and options become limited when faced with the sheer volume of inquiries that require more knowledgeable incumbents to develop prompt, accurate responses.

Maintaining the Registration Data Base. Almost 2,000,000 registration forms are edited and keypunched each year as they are received under the continuous registration program. Errors found during the registration process, such as an invalid date of birth or missing address, are corrected and acknowledgment letters are mailed to each new registrant. The acknowledgment letter emphasizes the statutory requirement for registrants to keep Selective Service informed of address changes. Changes to registrants' records are posted to the data base on a continuing basis. Acknowledgment letters are also sent to the registrants submitting changes in order to keep them informed of the latest information in their Selective Service records. Close to four million acknowledgment letters will be mailed in Fiscal Year 1985. The volume of registration records will continue to grow until the data base reaches maximum size in 1986. Selective Service has maintained its responsive turnaround time on issuing acknowledgment letters to new registrants and now mails letters to 92% of new registrants within 35 days after their registration at a post office. This rapid turnaround is important since many registrants require proof of registration quickly in order to qualify for jobs, federal loans and job training programs.

Registrant Record Verification Program. To insure that registrants in the prime vulnerability group can be reached by mail in time of mobilization, a registrant record verification program was established. Under this program, verification letters are mailed to registrants in their 19th and 20th years. These letters contain the information in the registrants' files and are sent to those registrants who have not had any activity on their files in the past eleven months. The U. S. Postal Service is requested to forward these verification letters to new addresses reported to them. Registrants are asked to verify their information or send back any changes. The revised data received are posted to the registrant's record and a new acknowledgment letter is sent to the registrant. Over 3.5 million verification letters will be mailed in Fiscal Year 1986.

SELECTIVE SERVICE SYSTEM INFORMATION TECHNOLOGY SYSTEMS

Selective Service automated data processing facilities include the Data Management Center and Joint Computer Center, both located in Illinois, and the Alexandria Computer Center located in Virginia. The Data Management Center provides the data entry, error correction, mail and logistics, and computer operations support required to process continuous registration. The Joint Computer Center, established jointly by Selective Service and the Military Enlistment Processing Command, handles the data processing requirments of continuous registration, and supports the development of computer systems such as induction, claims and appeals, and compliance. Programmers and analysts responsible for developing new systems and maintaining existing systems are located at the Alexandria Computer Center. This center also houses the computer used for agency administrative applications.

INITIATIVES

We plan three major initiatives for Fiscal Year 1986. First, regulations and procedures for induction processing of registrants residing overseas will be developed and published; second, RIMS will be revised to include procedures for a back-up operational system; and third, an alternative method for induction processing after the initial surge of a mobilization draft will be developed. This alternative method of induction will provide for classification and examination of registrants prior to the induction order.

CONCLUSION

Selective Service operation and programs can be maintained at the requested level of funding for the Fiscal Year 1986, although considerable belt tightening will be required.

Thank you for your kind attention and I am now ready to respond to your questions.

ALTERNATE INDUCTION METHOD

Senator PROXMIRE. Thank you, General.

At the bottom of page 5 and top of page 6, you say your third is "an alternate method for induction processing, after the initial surge of a mobilization draft will be developed. This alternative method of induction will provide for classification and examination of registrants prior to the induction order."

What will the cost of that be?

General TURNAGE. At that particular time, I don't think there has been any cost determination or definitive determination of what the difference in cost will be, although it will probably be minimal, Mr. Chairman. This is based on the fact that at the present time if we were to get a requirement from the Congress to initiate the system and, second, the requirement from the Secretary of Defense to start the program, we would have the first people report to the military entrance processing station [MEPS] within 13 days and then after their processing they would go straight to the training base without any interruption or any opportunity to go back home and take care of their personal affairs. Once the training base has been filled, however, then we would follow precisely the same process except we would give them an interim time between the classification and processing time to go and take care of obligations at home before reporting to the training base. That is the major change in the procedure.

Senator PROXMIRE. That would take a little more time.

General TURNAGE. Just the time essentially.

Senator PROXMIRE. What ages would be called first?

General TURNAGE. We start with age 20, sir.

Senator PROXMIRE. Twenty, and then nineteen?

General TURNAGE. Progress to 21 and then 22, and so forth.

Senator PROXMIRE. What happens to 18 and 19?

General TURNAGE. I beg your pardon.

Senator PROXMIRE. Eighteen and nineteen would be called last?

General TURNAGE. Last; yes, sir.

THE FARRELL ICE CREAM LIST

Senator PROXMIRE. One highly publicized list of getting people's birth date was the Farrell's Ice Cream Parlor birthday list. As the Senator from Wisconsin which has 25 percent of all the dairy farms in the country and for whom ice cream is very, very important, since we produce about 40 percent of all the milk that goes into ice cream, of course I have an interest in this. We want to do everything to promote ice cream, not discourage its consumption. [Laughter.]

How did you get that list and did you use it?

General TURNAGE. I have the specifics with regard to that, Mr. Chairman. I would like to share it with you and respond. This list was part of an overall list that we purchased through a commercial firm, and we used that during the period October 1983 to August 1984 for registration reminder post cards only, and they were designed to be mailed to recipients shortly before the individual reached his 18th birthday. Without identification to us, it was purchased by our System from a company in the East. We have since then discontinued use of that list. It has not been used for any of the compliance requirements.

Senator PROXMIRE. Are there any other commercial lists of birth dates that you have bought in the past?

General TURNAGE. Yes, sir; we receive lists from the American Student List Co. and that has been used in mass mailings of registration reminders during the period February 1982 to March 1983. We also used the Department of Defense joint recruiting effort type list of high school seniors and DOD routinely obtains those lists from commercial sources annually.

We receive each of the lists from DOD. After a list has been screened by DOD it is used by us for our purposes.

NUMBER OF NONREGISTRANTS

Senator PROXMIRE. I just have one other question. Would you provide for the record your estimate of the number of nonregistrants still remaining for each year from 1980 to 1985?

General TURNAGE. Yes, sir; I will be pleased to do so.

Senator PROXMIRE. Can you give us an estimate of roughly what percentage of the eligible people have registered?

General TURNAGE. Of those that we term in the draft eligible list, we have over 98 percent.

Senator PROXMIRE. Ninety-eight percent?

General TURNAGE. Yes, sir.

Senator PROXMIRE. Is that improved or not?

General TURNAGE. Indeed it has, sir. As a matter of fact, when we started this after the President made the determination that registration would be continued immediately following his receipt of information from the Military Manpower Task Force back in December 1981, on January 7, 1982, we had some 1.2 million people that hadn't registered at the time according to our data, based on census figures and those that we had in our System. That was only within a 3-year birth group.

Senator PROXMIRE. How do you account for the fact that it has improved so much?

General TURNAGE. Because we have continued a very intensive public awareness program. It is necessary to keep the idea before the young people that this is one of their obligations of citizenship and a lawful obligation.

Senator PROXMIRE. General, I apologize, I interrupted you.

General TURNAGE. Since that time, we are now working with 6 years of birth groups. Within this draft eligible group and only about 170,000 according to our records have not registered with us.

Senator PROXMIRE. Thank you, sir. Thank you very much, Mr. Chairman.

REGISTRATION IMPROVEMENT AND INCREASED WORKLOAD

Senator GARN [presiding]. Senator Proxmire, thank you.

I found out it is not only Senators who are long-winded. I was darting out of the hearing for 10 minutes and I didn't say a word the whole time I have been gone. I just listened and couldn't get it shut down to get back. So I do appreciate you carrying on for me. I just have one question.

After legislation requiring student registration in order to qualify for financial aid, the number of registrant inquiries went up from 1,000 weekly telephone calls at the start of fiscal 1984 to 3,800 at the start of fiscal 1985. Similarly the written inquiries tripled in the same time period and this level appears to be continuing to go up. What are you planning to do to handle this increased workload while at the same time you are reducing your personnel?

General TURNAGE. We have been able to develop an incentive program, quite unique to Federal Government, in our data entry department. We have saved a total of 13 staff-years annually in the processing of the registration cards that come into our system. We have used those people to staff the telephone bank, the 800 number we used for this purpose.

Part of the increased workload has been generated by the Solomon amendment, the Joint Training Partnership Act arrangement which we have with the Department of Labor and their implementation of the program.

Moreover, some of the state initiatives with similar laws require evidence of the registration process. Oftentimes then they call in and ask for support. That accounts for the increased workload. We have been able to do it within the assets available simply by increased efficiency.

Senator GARN. Thank you very much. We appreciate your willingness to testify today.

SUBMITTED QUESTIONS

[The following questions were not asked at the hearing but were submitted to the System for response for the record:]

QUESTIONS SUBMITTED BY SENATOR GARN

OMB REQUEST

Question: Is the amount requested in your budget justification different from your Office of Management and Budget (OMB) request?

Would you please indicate those program areas that were reduced?

What impact will these reductions have upon the programs?

Answer: Yes, the amount requested to OMB is different than the FY 86 Budget Justifications. There were two program areas that were reduced. The first was a request for 10 additional positions and funds to respond to requests for information from registrants and potential registrants. The denial of this request will result in additional backlogs. The second area that was reduced was a request for 60 additional Reserve Forces Officers to augment area offices and Military Entrance Processing Stations upon mobilization. The impact of not receiving the additional officers is twofold. The largest area offices will take longer to become fully operational and the Military Entrance Processing Stations may be required to accommodate a second shift upon mobilization.

ADDRESS VERIFICATION

Question: How many verification letters did you send out in FY 84?

Answer: During FY 84 there were 3,927,384 verification letters mailed.

Question: What response did you have?

Answer: During FY 84 there were 391,200 responses to verification letters.

Question: How many verification letters do you plan to send out in FY 85?

Answer: During FY 85 the Selective Service plans to mail 2.4 million verification letters.

Question: What will be the cost of the verification process in FY 85?

Answer: Printing, postage and processing costs for the verification process in FY 85 will be $471,000.

Question: How many verification letters do you plan to send out in FY 86?

Answer: During FY 86 the Selective Service plans to mail 1.8 million verification letters.

Question: What will be the cost of the verification process in FY 86?

Answer: Printing, postage and processing costs for the verification process in FY 86 will be $373,000.

COMPLIANCE PROGRAM

Question: Your compliance program is based on computerized matching of names within different data bases along with follow-up compliance letters. This program has resulted in over 800,000 registrations of former non-registrants as of January 1985.

Would you please comment on this program and describe the sources of these data bases?

Answer: Under the Registration Compliance Program, we send letters to suspected non-registrants - those who should be registered, but who apparently have not done so. After two or three such letters the individuals who fail to register or fail to indicate a valid reason for not registering are referred to the Department of Justice for investigation and, if applicable, prosecution.

In the Compliance Program we have not used lists from commerical sources. We have used lists from the following sources: State driver's license records; high school student lists; voter registration lists; Social Security Administration records; Department of Defense/Department of Transportation lists of members of the Reserve Components, including the National Guard and United States Coast Guard Reserve, and lists of former members of the active military (DOD only) who at the time of separation from active duty are not registered; and, Veterans Administration lists. Although we purchase some of these lists from State and local government agencies we do not define them as commerical sources.

Each new incoming list is matched against the following: Our master registration file; our previously-identified suspected non-registrant list; our female first names list; lists of those on active duty in the United States Armed Forces and the United States Coast Guard; and, our list of deceased men. If matches occur the names are dropped from further processing and the individual is not sent a letter.

Question: Would you please provide, for the record, your estimate of the number of non-registrants still remaining for each year from 1980 to 1985?

Answer: As of March 3, 1985, based upon potential-registrant estimates obtained from commercial population forecasting firms, the number of non-registrants in each year group was approximately:

YOB	NON-REGISTRANTS
1960	43,000
1961	2,000
1962	3,000
1963	10,000
1964	39,000
1965	77,000
1966	380,000
1967	34,000
TOTAL	588,000

PROSECUTION OF NON-REGISTRANTS

Question: How many individuals failed to register in FY 84?

Answer: Because our registration process operates on a year of birth basis, it is clearest to answer in terms of calendar year. Under the law a man has until 30 days after his 18th birthday to register. The 1966 year of birth was required to register in 1984. Of the year of birth 1966, an estimated 380,000 had failed to register in a timely manner as of March 3, 1985. Based upon past patterns of late registration, we expect the estimated number of year of birth 1966 nonregistrants to decrease considerably in the months ahead, particularly due to our active compliance program. Under that program, after allowing time for the young men to register and their forms to be processed, we check for suspected nonregistrants and contact those identified. However, this active compliance program activity primarily occurs during the man's 19th year. By the time the year of birth enters the draft eligible group, the number of nonregistrants has been reduced significantly. We estimate that the 12.2 million registrants currently in the draft eligible group represent a compliance rate over 98%. We expect that the 1966 year of birth group will have a comperable compliance rate when it enters the draft eligible group in 1986.

Question: How many cases did you refer to the Justice Department for prosecution?

Answer: In December 1984 we referred the names of 201,321 possible nonregistrants to the Department of Justice. This number includes primarily individuals in year of birth groups 1960 through 1965. Because of the time allowed for receipt and processing of a timely registration, we do not start active compliance processing until well after a man's 18th birthday. Once compliance processing begins, the man is also allowed a period in which to respond to each of our compliance letters. Time is also allowed for processing any response from him before he is moved to the next stage of processing. Ultimately his case may be referred to the Department of Justice, but typically this would not be until he is near age 19. The number of cases referred this past December is cumulative from the time these referrals began in July 1981, but corrected for those men who registered or were proven to be exempt since that time. For example, since February 1983 there have been 60,000 former referrals excluded from the December referral because they have registered.

Question: How do you decide which cases should be referred for prosecution?

Answer: Any individual identified as a possible non-registrant is referred to Department of Justice (DoJ) for investigation and, where appropriate, prosecution. The decision to investigate or to prosecute a possible non-registrant is exercised solely by DoJ.

ADP DATA TRANSACTIONS

Question: In FY 83, you indicated that your employees at the Data Management Center processed as average of 285 transactions per day in FY 82 and that your stated goal for FY 84 was 400 transactions per day.

What was the rate achieved in FY 84 and your rate for the first quarter of FY 85?

Answer: Through the use of streamlined procedures and an incentive program, unique to the Federal Government, we have increased our productivity significantly at the Data Management Center (DMC). Our employees averaged 600 transactions per day in FY 84.

During the first quarter of FY 85 we have implemented an on-line update and letter production capability which has further increased our productivity to 620 transactions per day.

OUTSIDE CONTRACTUAL SERVICES

Question: You have previously indicated that $137,000 would be spent in FY 84 on contractual services.

What is the level that was spent in FY 84 and what do you anticipate for FY 85 and FY 86?

Would you please provide, for the record, a comparison identifying the major services provided and anticipated in these three years?

Answer: In response to your questions regarding outside contractual services, the following details are provided:

Type of Service	FY 84	FY 85	FY 86
Microfilm & Michrofiche Services	$23,000	$23,000	$23,000
Contractual Services - Software Development	60,000	-0-	-0-
Contract Personnel for Non-Technical Tasks	83,000	100,000	100,000
TOTAL	$166,000	$123,000	$123,000

CONSULTANTS AND EXPERTS

Question: How much do you expect to spend for consultants and experts in FY 84, FY 85 and Fy 86?

Answer: $25,000 was spent for expert/consultant services during FY 84. We have no plans or requirements at this time for expert/consultant services for FY 85 or FY 86.

ADDITIONAL POSITIONS

Question: Your budget justification indicated that you are not requesting any additional permanent postions.

Did your request to OMB include any additional positions?

Answer: Yes, we requested ten additional postions.

Question: Could you provide, for the record, the number of FTE for FY 83 through FY 86?

Please include FTE associated with overtime and holiday hours.

Answer:

	FY 83	FY 84	FY 85	FY 86
	Actual	Actual	Estimated	Estimated
Straight Hours (Holiday Inc)	278.83	272.63	277	277
Overtime Hours	5.98	11.70	10	10
TOTAL	284.81	284.33	287	287

PUBLIC AWARENESS

Question: How much did you spend for public awareness in FY 84?

How much do you expect to spend in FY 85 and FY 86?

Answer: In FY 84, our budget for public awareness was $600,000. The same amount will be allocated during FY 85 and FY 86.

SELECTION OF BOARD MEMBERS

Question: In the past, you provided the Committee with a statistical summary of the selected board members, including demographic data.

Could you please update this information for the record?

Answer: Supplied. Report dated March 7, 1985.

STATUS REPORT
BOARD MEMBERS
MARCH 7, 1985

APPEAL BOARDS

REGION	REQUIRED	ON BOARD	SHORTAGE
I	95	93	2
II	130	130	0
III	60	58	2
IV	65	63	2
V	65	65	0
VI	60	60	0
TOTAL	475	469	6

LOCAL BOARDS

I	2305	2235	70
II	2245	2150	95
III	2025	1928	97
IV	1225	1194	31
V	1540	1461	79
VI	1215	1173	42
TOTAL	10,555	10,141	414

CIVILIAN REVIEW BOARD

I	120	118	2
II	80	78	2
III	110	110	0
IV	50	43	7
V	80	79	1
VI	40	40	0
TOTAL	480	468	12

Category	Number	Percentage	Census%
Sex			
Male	8758	79.1	

Female	2320	20.9	
Race			
Black	1323	11.9	11.7
AI/AN	117	1.06	0.63
A/PI	93	0.83	1.5
Ethnicity			
Hispanic	632	5.7	4.4

TRAINING

Question: How much are you requesting for training of Board Members, Appeals Board and Alternative Service Worker (ASW) Civilian Review Boards?

Answer: A total of 464 thousand has been requested. This amount includes initial training costs for new or replacement members on our boards as well as the cost of continuation or refresher training for members who have completed their initial training. Also included in the sum are the travel and per diem amounts to reimburse those board members for their incidential expenses and travel costs.

USE OF OTHER DATA SOURCES

Question: Last year, you stated that the Selective Service System was using driver licenses and high school graduation lists in identifying non-registrants.

How many States presently have agreed to furnish driver's records?

Answer: All of the States and territories except Hawaii and Montana have furnished us with driver's license records at some time since the compliance program began. After initially providing us with their lists the following States are currently withholding further submissions pending either additional review of the subject or specific State legislation: Connecticut, Georgia and Nebraska. In the following States we must identify individuals, including their Social Security Account Numbers, before data is provided to us: Alaska, California and Indiana.

Question: Have there been any improvements from last year?

Answer: Yes. Since March 1984 we have received data for the first time from the Virgin Islands.

Question: What progress is being made in the remaining States and what inducements can you offer for their cooperations?

Answer:

1. Connecticut has discontinued Department of Motor Vehicles (DMV) submissions to us. The State Director is pursuing the matter within the State.

2. Georgia's Attorney General refused release of updated DMV data after the 1982 submission. Georgia recently passed legislation permitting release of the data to us effective July 1, 1985. The Governor supports the legislation and is expected to sign it soon.

3. Hawaii's Attorney General has ruled that Selective Service can have access to the DMV data. The State Director is working with the new Mayor of Honolulu to secure release of the data.

4. Legislation was introduced in Montana in February to permit Selective Service access to DMV driver's license records.

5. Nebraska originally submitted data, but the Governor opposes DMV submission. We anticipate that legislation will be introduced in FY 85 to permit Selective Service access to their DMV driver's license records.

No inducements are offered the States. By providing the data they are assisting to achieve a fairness in the National draft registration system to achieve a more complete list of the manpower pool in the event inductions are ever resumed. They are assisting in providing information to their young men about the registration requirement.

SUBCOMMITTEE RECESS

Senator GARN. The subcommittee will stand in recess until tomorrow, March 14, at 10 a.m. in SD–192, at which time we will hear testimony from the National Aeronautics and Space Administration, an agency that I know a great deal more about than I did 2 months ago.

[Whereupon, at 12:30 p.m. Wednesday, March 13, the subcommittee was recessed to reconvene at 10 a.m., Thursday, March 14.]

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT-INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1986

WEDNESDAY, APRIL 24, 1985

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10 a.m. in room SD–124, Hon. Jake Garn (chairman) presiding.

Present. Senators Garn, D'Amato, Leahy, Proxmire, and Lautenberg.

FEDERAL EMERGENCY MANAGEMENT AGENCY

STATEMENT OF LOUIS O. GIUFFRIDA, DIRECTOR

ACCOMPANIED BY:
- BERNARD MAGUIRE, ASSOCIATE DIRECTOR, NATIONAL PREPAREDNESS PROGRAMS
- JEFFREY BRAGG, ADMINISTRATOR, FEDERAL INSURANCE ADMINISTRATION
- FRAVEL BROWN, SPECIAL ASSISTANT TO THE DIRECTOR, TRAINING AND FIRE PROGRAMS
- GEORGE JETT, GENERAL COUNSEL
- GERALD MARTIN, EXECUTIVE ADMINISTRATOR
- WILLIAM F.W. JONES, COMPTROLLER
- DAVID McLOUGHLIN, DEPUTY ASSOCIATE DIRECTOR, STATE AND LOCAL PROGRAMS AND SUPPORT
- BILL WILLIAMS, ACTING ASSOCIATE DIRECTOR, EMERGENCY OPERATIONS

BUDGET REQUEST

Senator GARN. The subcommittee will come to order.

General Giuffrida, we are happy to have you with us again this morning. I want to welcome you and your staff here for your annuai appropriations request hearing. FEMA is responsible for supervising Federal efforts to anticipate, prepare for, and respond to major civil emergencies. The Agency also works to ensure the effectiveness of the National Civil Defense Program as well as the availability of civil defense systems and resources in coping with all major disasters.

FEMA coordinates the programs aimed at preventing and mitigating the effects of potential disasters and the programs designed to deal with these disasters once they occur.

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This year, FEMA is requesting $232,362,000 for emergency management planning and assistance, $194 million for the Disaster Relief Fund, $92,852,000 for the National Flood Insurance Fund; and $115,708,000 for salaries and expenses. This represents a 32-percent decrease from our fiscal year 1985 appropriation. It is also interesting to note that last year you were requesting a 32-percent increase over the fiscal year 1984 level.

As you know, we do have another agency to appear before us this morning, and so I would appreciate it if you would summarize your remarks. But before you do that, Senator D'Amato has another committee to go to. So if you wouldn't mind, we will proceed with Senator D'Amato and his statement and questions before you proceed.

Senator D'Amato.

CLOSING OF NEW YORK REGIONAL OFFICE

Senator D'AMATO. Thank you, Mr. Chairman.

I would like to submit my statement and a number of questions for the record. Basically we indicate the importance of FEMA and EPA to New York.

General, it is my understanding that last week FEMA assured Congressman Green that there have been no proposals made to OMB, or vice versa, from OMB to yourself, to close or transfer the functions of the New York regional office. Can I have your commitment that the New York office will remain at its present status and configuration? I would like to confirm that.

Mr. GIUFFRIDA. Senator D'Amato, my answer to Congressman Green's question was that we are negotiating with OMB the proper way to implement the instructions that they have given us. My instructions to the FEMA staff from the inception of the requirement has been to be sensitive to the least possible disruption of the people and the expertise in the various offices, and as of this time, we are still in the process of negotiating.

I will assure you, as I assured Congressman Green, that simply from a management point of view, it would make no sense to take people who have acquired expertise with regional problems and arbitrarily shift the management of these problems to other parts of the country.

Senator D'AMATO. All right. I do have, Mr. Chairman, a number of other questions for the record. It seems wherever we go, we find little guys with the green eyeshades down at OMB, Mr. Chairman, who actually not only look to save money, but who come into the governance of various agencies and, I suggest, in more cases than not, create problems.

Senator GARN. What makes you think they have green eyeshades?

Senator D'AMATO. No one else could come up with some of their ludicrous proposals.

Senator GARN. No, I just meant I think that is a rather slam——

Senator D'AMATO. At OMB?

Senator GARN. Yes. No, the accountants [laughter] who do good work with black armbands. I think we ought to put OMB in a different category.

Senator D'AMATO. I agree with you, Mr. Chairman. [Laughter.]

Thank you for your patience and understanding. I have to go over to the Subcommittee on Transportation after having left another subcommittee to come to this one. I am deeply appreciative and it is good to see you are back with us.

Senator GARN. He has to go over and fight for operating subsidies for New York.

Mr. GIUFFRIDA. Senator D'Amato?

Senator D'AMATO. No. Here we have a drug epidemic and OMB wants to cut back on DEA's request for drug enforcement, and we are going to win this battle with phantoms.

Mr. GIUFFRIDA. We will keep your office informed of our decisions.

Senator D'AMATO. Thank you. Thank you, Mr. Chairman.

[CLERK'S NOTE: The statement of Senator D'Amato has been inserted into the record of the EPA testimony.]

Senator GARN. Senator Proxmire, do you have any opening statement before we proceed?

Senator Proxmire. No, Mr. Chairman. Thank you very much.

Senator GARN. I just can't resist it, General, before you start—I will control myself, from what I would really like to say. But as I came in and sat down and looked down at you, the first victim in this audience, I thought about what I was doing a week ago today. It is a little bit different. We were struggling 180 miles over the Earth with a huge satellite spinning at 2 r/min 10 feet above the cargo bay hoping it wouldn't move back into the tail. We were seeing a beautiful view of the Earth. Again, it is nothing personal, but this isn't nearly as exciting. [Laughter.]

If you would like to proceed with your statement, I would be happy—[laughter].

PREPARED STATEMENT

Mr. GIUFFRIDA. Mr. Chairman, I have a statement. With your concurrence, I will not read it. I will simply, in deference to the tight schedule the committee has, submit it for the record and, again, with your approval, I have instructed my staff, as questions come from the committee, the staff having primary cognizance in that area will simply speak up. So we are ready for your questions, sir.

Senator GARN. Very good. We will include your statement in the record as if read.

[The statement follows:]

STATEMENT OF LOUIS O. GIUFFRIDA

Mr. Chairman and members of the subcommittee, we appear before you today to present testimony on the budget request of the Federal Emergency Management Agency [FEMA] for fiscal year 1986.

The total requested for appropriation is $634,922,000, of which $92,852,000 is required by the National Flood Insurance Fund [NFIF] for debt payment; the outlay request is $675,102,000; and FEMA's full-time equivalent needs are estimated at 2,487. Compared to 1985, appropriations decrease by $126,651,000, outlays decrease by $114,518,000, and full-time equivalents decrease by 178. The specifics of these changes are detailed in the budget justification.

The Federal budget proposes a 1-year freeze in total spending other than debt service. This will be achieved through a combination of freezes, reforms, terminations, cutbacks, and management improvements in individual programs. Taken together, the specific proposals in the Federal budget hold total spending, including debt service, constant in 1986 at its 1985 level. Because of the administration's commitment to drastically reduce the deficit through curtailment of Federal spending, FEMA's programs are either frozen at the 1985 level or reduced by further cutbacks.

These reductions do not indicate that there is a reduced need for the lifesaving capabilities supported by the appropriations we administer. Neither does the request indicate that there is a reduced need for implementing our integrated emergency management system strategy and the planning and preparedness at the State and local levels, or at the Federal level. These reductions are indicative of a serious commitment by the administration to reduce the Federal budget deficit.

FLOOD PLAIN MANAGEMENT TRANSFER

In 1986, FEMA proposes to fund both the Flood Plain Management Program and the costs associated with the administration of the National Flood Insurance Program from the National Flood Insurance Fund. A total of 172 work-years and $57,074,000 from flood plain management and 53 work-years and $2,747,000 from the "Insurance activities" line item will be transferred to the National Flood Insurance Fund. In addition, 42 work-years and $1,681,000 are being transferred from flood plain management to comprehensive emergency preparedness planning and management and administration.

NATIONAL INSURANCE DEVELOPMENT FUND

Six work-years, whose costs are currently reimbursed to the "Salaries and expenses" appropriation from the National Insurance Development Fund, will be paid directly from the fund.

REGIONAL CONSOLIDATION

A proposal to eliminate and close four FEMA regional offices and consolidate some of the regional management and administration functions results in a reduction of 50 work-years and $905,000 in regional housekeeping costs, as well as a $1,064,000 reduction in management and administration for standard level user charges.

CIVIL DEFENSE

The request for the Civil Defense Program is $119,125,000 and 567 work-years, a decrease of 99 work-years and $58,829,000 from the current year estimate. Again, the reason for this action is linked to the need to reduce the Federal deficit.

We regard 1986 as a maintenance year, during which we will continue to review the program and its elements. Recognizing that skilled employees at the Federal, State, and local levels, who represent a vital investment, are the most fundamental assets of the program, we are making every effort in 1986 to keep experienced people. Thus, while the program is reduced by about one-third overall, we have reduced emergency management assistance matching funds for State and local emergency management staffs by only 12 percent. Also, the request before you includes the same percentage of funds provided directly to State and local governments as in 1985; namely, 53 percent. The balance of the program benefits States and localities, even though the funds are not provided to them directly. For example, the national warning system provides severe weather and other warnings promptly to warning points throughout the Nation which are staffed around the clock. The training program brings emergency management courses and exercises to an audience composed almost entirely of State and local officials and their citizens.

We intend to continue the strategy by which we have been working with State and local governments since 1984 to improve our emergency capabilities, the integrated emergency management system, or IEMS. This is based on the fact that the functions called for in the Civil Defense Act are basically common functions required in all emergency situations to protect our citizens. IEMS fosters a workable Federal, State, and local government partnership, with provisions for flexibility at the several levels of government for achieving common readiness goals. It is a "grass-roots-up" approach, and it builds on the foundation of existing emergency plans and systems.

We are also continuing to apply the integrated approach within FEMA, and, in fact, on an interagency basis in the Federal Government, as well as in our programs with State and local governments. In other words, we are practicing at the Federal level what we preach about integrated emergency management for all levels of government. Examples of such IEMS activities include, among many others:

—Operation of a 24-hour, state-of-the-art emergency information and coordination center [EICC] at the FEMA headquarters building in Washington, DC, linked via our FEMA national emergency management system [NEMS] information systems to the White House situation room, national warning networks, the Defense Department, other Federal agencies, the FEMA regions, and the States. The EICC provides a means through which government leaders may coordinate the Federal response to any major emergency threatening a broad segment of Americans.

—Continued development and modernization of the FEMA NEMS as our integrated system of emergency telecommunications, warning, ADP, and information for use by civil government from the Washington, DC, level to the States.

—Training in emergency management for elected and appointed officials at all levels of government.

—Exercises in which all levels of government prepare for coordinated, integrated operations in domestic and national security emergencies of all types.

—Issuance of preparedness guidance to Federal agencies on actions to mobilize personnel and resources to manage the full spectrum of domestic and national security emergencies.

Indeed, FEMA was established—by executive branch and congressional action—to foster the development of a genuinely comprehensive national system for emergency management. It would develop a useful infrastructure at Federal, State, and local levels, and in the private sector to mitigate, plan for, respond to, and recover from emergencies of all types. Integrated emergency management is of special significance in the Civil Defense Program. It is this program which accounts for the preponderance of the Federal Government's support for State and local emergency management personnel, as well as for the programs which improve their ability to save lives where disasters occur—in local jurisdictions throughout the United States.

Additional field experience has confirmed the validity of integrated emergency management in the programs we conduct in partnership with State and local governments. All of these programs have undergone basic substantive changes since 1984 to assure that they will save lives in emergencies of all types.

COMPREHENSIVE EMERGENCY PREPAREDNESS PLANNING

The request for comprehensive emergency preparedness planning is $9,302,000 and 81 work-years, a net increase of 33 work-years and $253,000. An increase of $1,000,000, appropriated in 1985, has been eliminated since other involved Federal agencies have not received the appropriations necessary to carry out the multiagency Earthquake Hazards Reduction Program. To more accurately reflect the program policy responsibilities of the work-years involved, $1,313,000 and 33 work-years are being transferred from flood plain management.

RADIOLOGICAL EMERGENCY PREPAREDNESS

The request for radiological emergency preparedness is $5,957,000 and 64 work-years, a decrease of $732,000 and 3 work-years.

FEDERAL PREPAREDNESS

The request for Federal preparedness is $154,452,000 and 862 work-years, a net increase of $14,317,000 and a decrease of 58 work-years. Resource preparedness is reduced by $1,000,000 and 25 work-years.

TRAINING AND FIRE PROGRAMS

The request for training and fire programs is $22,712,000 and 104 work-years, a decrease of $4,222,000 and 2 work-years. A reduction of $2,000,000 is requested in the Emergency Management Institute and the National Fire Academy in order to eliminate travel stipends for students as of October 1, 1985. The U.S. Fire Administration has been reduced by the $2,000,000 congressional add-on in 1985.

WESTERN TRAINING CENTER

Amounts are included in the request for training and fire programs and civil defense for 10 work-years and $3,165,000 for the establishment and operation of a western training facility at the former Stewart Indian School near Carson City, NV. I understand your committee has made a review of our plans and activities for this center and we will be pleased to answer your questions.

MANAGEMENT AND ADMINISTRATION

The request for management and administration is $30,122,000 and 434 work-years, a net decrease of $5,740,000 and 1 work-year. To more accurately reflect administrative responsibilities, $368,000 and 9 work-years are being transferred from flood plain management. Eight work-years and $700,000 have been reduced as a result of the civil defense reduction, and a 10-percent reduction in management and administration costs results in a $3,400,000 decrease.

AGENCY-WIDE REDUCTIONS

The request for fiscal year 1986 includes reductions which affect various FEMA programs. FEMA's share of reductions mandated by the Deficit Reduction Act is $2,073,000. This amount is included in a rescission proposal for 1985 as well as in the request for 1986. A reduction of 39 work-years and $1,000,000, in compliance with administration policy requiring the Government to improve program efficiency, has been incorporated in this request. Other reductions include a proposed 5-percent pay cut of $3,678,000 in January 1986, partially offset by an increase of $906,000 for annualization of the January 1985 pay raise, and a reduction of $700,000 to be achieved by reducing the number of employees in the GS-11 to GM-15 grade range.

DISASTER RELIEF

Under the Disaster Relief Act of 1974, FEMA is authorized to administer disaster assistance programs and to manage and coordinate the total Federal response to Presidentially declared major disasters and emergencies. New budget authority of $194,000,000 is requested for 1986. This request will provide an estimated $371,260,000 in obligational authority which is necessary to provide Federal assistance to supplement resources of State and local governments.

EMERGENCY FOOD AND SHELTER

No funding is requested for the Emergency Food and Shelter Program for 1986.

Thank you, Mr. Chairman. My staff and I will be pleased to answer any questions.

APPROPRIATION TRANSFERS

Senator GARN. You have asked for $2,472,000 in fiscal year 1985 pay supplemental and $2.9 million transfer between accounts to provide the required funding for salaries and expenses. How much of your increased pay costs are you being asked to absorb at that level?

Mr. JONES. In fiscal year 1985, FEMA was directed to absorb $1,129,000 for merit pay and merit pay bonuses. In fiscal year 1986, merit pay and merit pay bonuses will, again, be absorbed.

Senator GARN. What would be the impact of Congress approving the requests and your having to absorb the difference?

Mr. GIUFFRIDA. Mr. Chairman, perhaps I can answer part of that question. We asked for the transfer of $2,472,000 from EMPA to "Salaries and expenses" for the January 1985 pay raise, the transfer of $2.9 million for the cost of State and local programs and support directorate for pay and benefit requirements, and the transfer of $200,000 from the EMPA to fund the cost of the A-76 studies for the 39 positions that are under review for the fiscal year 1986 budget. If the total appropriation transfer of $5,572,000 is disapproved, FEMA will have to furlough its employees for 14 days.

If the transfer of the $2.9 million to support pay and benefit for the State and local programs and support directorate is disapproved, FEMA must furlough its employees for 7 days.

The appropriation transfers have not been isolated actions. Within the Agency, we have already taken some fairly stringent economy measures for a total of $4,040,000 to include a freeze on travel and a freeze on other object classes. We have terminated other than full-time permanent employees, and put constraints on overtime and promotions. The bottom line, sir, is that it will hurt.

CLOSING OF FOUR REGIONAL OFFICES

Senator GARN. This has already been referred to. You will close four regional offices in reducing the FEMA regional offices down to six in fiscal year 1986. Rather than asking a similar question of which ones you are going to close, I would like you to explain to me what criteria you will use in making your decisions?

Mr. GIUFFRIDA. Clearly, one of the criteria that has been factored in is the population audience that those particular regions serve, the history of disasters and emergencies, and other programs in which the regions are now involved. I think that is about the whole test. It is not an easy task, as you know, and we have had some very animated discussions on it since December.

Senator GARN. What I am really getting at, I certainly recognize it is not an easy decision. That is why I am really wondering if you had tried to devise some criteria, and provide some guidelines so that you will have the basis to come back here and justify the four offices that are closed. You are going to have to identify the factual basis so you are not accused of—well, that it was done politically. That is what I am getting at.

Mr. GIUFFRIDA. I understand.

Senator GARN. You say we made the decisions on this factual basis.

Mr. GIUFFRIDA. First of all, Senator, I have not made a decision that any are going to be closed or, if any are closed, which ones they are. That is not a stall; that is an honest answer.

We are looking at retaining in each of the parts of the United States those people and those services which FEMA has been able to bring to that particular cluster of the population for a long time, and do it in such a way we don't strip any of the regions of that access. I am picking my words because I am trying not to be nailed down to say it is going to be 1 or 12, 16 or whatever. But, again, as recently as Monday, I had my senior staff meet again with OMB to address the same issue to make sure whatever we do, we do it right. First of all, Congress will be kept fully informed; second, that it is done in a way that does not impact unacceptably on anyone.

Senator GARN. We appreciate your followup with it.

Mr. GIUFFRIDA. Yes, sir, you will get it. The whole committee will get it.

TELECOMMUNICATIONS AND WARNING FUNDING

Senator GARN. This subcommittee in its Senate Report 98-506 on the fiscal year 1985 appropriations bill targeted telecommunications and warning as the most time critical and highest priority in the Civil Defense Program. The intent was to replace obsolete equipment with current state-of-the-art equipment that could be maintained at significantly lower costs in the future than the leased telephone lines whose costs are escalating.

What progress did we achieve in fiscal year 1985 when we directed that the funding level be increased 116 percent over the fiscal year 1984 level to meet these upgraded system goals?

Mr. WILLIAMS. As you know, the national telecommunications and warning systems were very old, and we were dealing with obsolete equipment on a nationwide basis. We developed a 5-year program to begin upgrading those systems and replacing the obsolete equipment.

Let me summarize what we have done in the last 2 years in those systems and give you an idea of how we are progressing in the national warning system. In 1984, we began to test a prototype for our low profile warning antennas. In 1985, we established phase 1 to acquire the low-frequency system, and we began procurement of terminals to be located in the States.

In the fiscal year 1986 budget, the upgrades will cease for a year period, and we will maintain the system at the current level. However, we will continue funding the national warning system down to the State and local level with 100-percent funding.

Senator GARN. So what you just said is that the fiscal year 1986 budget request really takes the warning system back to the 1984 maintenance level program mostly using obsolete equipment. You are saying that is for a year.

Mr. WILLIAMS. Yes, sir.

Senator GARN. Unless OMB tells you to do it again next year.

Mr. WILLIAMS. Yes, sir.

Senator GARN. Please proceed.

Mr. WILLIAMS. In the Washington area warning system, we began to install a VHF system to upgrade the landlines. In 1985, we installed the first phase of the VHF system, and there are sufficient funds in this budget to complete and finish the entire system. So the Washington area warning system will be completed as scheduled.

In the national teletype system we began a phased program to add minicomputers. Again, the current IBM computers we have at two sites are obsolete and the vendor no longer warrants or provides spare parts.

In the 1986 budget, we will finish the minicomputers in five of the regions and we will have approximately three-fourths of the system completed.

In the national voice system there were no upgrades. We will continue to maintain the current system.

In the national radio system, a system that is critical at the State and local level also, we bought new 10 kW transceivers in two regions in 1984 and we put one kW transceiver in six States.

In 1985, we added 4 more regions and 14 additional States. In 1986, we have enough funds to add 2 more regions and 2 States. That gives us 22 States complete and, again, we would delay until next year.

It would take us approximately $11 to $12 million over a 3-year period to complete that project.

Senator GARN. Could you provide us by May 3 two prioritized lists, one for the nine components of the Telecommunications and Warning Program and one for the seven other programs in the civil defense area.

Mr. WILLIAMS. Yes, sir. We currently have a prioritization of our needs, and we can furnish that data.

[The information follows:]

PRIORITIZATION OF PROGRAMS

Provided below is a prioritized list of the nine components of the Telecommunications and Warning Program.

(1) National Warning System (NAWAS)

- Modernize the existing 2600 warning point system and develop MB technologies to provide more survivability.
- Integrate and modernize existing Emergency Broadcast System capabilities in conjunction with NAWAS upgrade.

(2) FEMA National Radio System (FNARS)

- Complete the HF modernization effort, started in FY 84 and 85, in four Regions, 26 States and the Territories and possessions.
- Replace obsolete teletype machines in the Regions, States, Territories, and possessions.
- Complete VHF portable/mobile modernization commenced in FY 83.
- Install modern HF all-band antennas at FEMA Regions, States, Terroritories and possessions.

(3) Telecommunications Support Services

- Complete EPABX switching system acquisitions at the Regions.
- Acquire a nationwide digital display paging system.
- Introduce satellite distributed video teleconferencing of the NETC.
- Install secure video teleconferencing systems at FEMA Headquarters to interface with selected FEMA facilities.
- Acquire cellular telephones at the Regions.

(4) FEMA National Teletype System (FNATS)

- Phase II of the system modernization will extend the modern secure message capability to the five remaining Regions, the 50 State Emergency Operating Centers, the District of Columbia, Virgin Islands, Puerto Rico, and four Canadian provinces.

(5) Washington Area Warning System (WAWAS)

- Enhancements to improve reliability and survivability are scheduled for completion in 1986.

(6) FEMA National Voice System (FNAVS)

- Upgrading of the system with secure voice capability to FEMA and State locations is planned for completion in FY 86.

(7) U.S. Army Civil Preparedness Support Detachments (CPSD)

- FEMA is currently reviewing mission requirements to determine if the size and/or composition of the units needs to be changed.

(8) Decision Information Distribution System (DIDS)

- No modernization of the system is planned at this time.

(9) DoD Reimbursable Support

- No increase in support is planned at this time.

The best prioritization for the seven civil defense programs other than Telecommunications and Warning is as reflected in FEMA's FY 1986 budget request at the $119.125 million level. That is, State and Local Emergency Management is allocated $51.3 million, Training and Education is allocated $8.528 million, Radiological Protection is allocated $6.274 million, and so on.

The rationale for the allocation is as set forth in the Director's statement. It is to make every effort in 1986 to keep experenced employees at the Federal, State and local levels, on the basis that these skilled people are the most fundamental assets of the program. Thus, while the program is reduced by about one-third overall, Emergency Management Assistance matching funds for State and local emergency management staffs (some 6,000 people) are reduced by only 12 percent from the FY 1985 level. This will still result in some reduction in the number of participating jurisdictions, from an estimated 2,800 in FY 1985 to about 2,500 jurisdictions in FY 1986.

Minimizing reductions in trained staff has required making larger reductions in other areas. For example, training is reduced by nearly half from the FY 1985 level; Research is reduced to a token level; there are no matching funds for State and Local Direction, Control and Warning (e.g., for development of State and local Emergency Operating Centers); and there are no funds for Protection of Industrial Capability.

FEMA believes that the priorities reflected in the FY 1986 request at $119.125 million reflect the best allocation at that level. It would be inappropriate to invest more in hardware systems at the cost of more severe reductions in the trained staffs who are to be supported by or make use of the systems. Should additional funds become available in the future, hardware systems can be procured with shorter leadtimes than those required to rebuild effective staffs, because staff effectiveness is a function of years of experience in the program.

NUCLEAR WINTER

Senator GARN. Senator Proxmire.

Senator PROXMIRE. Mr. Director, there is a growing amount of evidence that in the event of a nuclear war that we would have a nuclear winter. In fact, the Defense Department commissioned a study by the National Academy of Sciences and their finding was there was a clear possibility of nuclear winter, and the Defense Department seems to concur that that is a realistic possibility.

In that event, it seems to me that our civil defense effort would be very seriously challenged and would require a great deal more attention. Some people argue that because of the fact with the nuclear winter, we would have a situation in which the temperatures would drop 45 degrees below normal and that we would have many weeks of absolute darkness, and so forth, that plants would disappear, and animals would starve and we would have mass starvation. It would be a terrific challenge to any kind of civil defense program.

This is being studied by the Defense Department, by others as to what they would do in this event.

How is your Agency incorporating the nuclear winter findings into its civil defense program?

Mr. MAGUIRE. Senator Proxmire, this Agency is following closely the scientific debate that is going on on the topic of nuclear winter.

Senator PROXMIRE. Are you doing any nuclear winter research?

Mr. MAGUIRE. We are spending no resources in fiscal year 1985 and have none projected in fiscal year 1986 to actually do research into the nuclear winter area. As I said, we are following closely the debate and know that there are a great number of uncertainties in that debate within the scientific community. When these uncertainties are narrowed down and there is a consensus amongst the scientific community, at that time we will be able to consider the results of the study and consider the impact on the civil defense program.

Senator PROXMIRE. Do you have any time schedule for this? How long will you wait? The uncertainties are likely to go on for quite a while. This is something we won't really know about unless we have a nuclear war. It has to be based on speculation?

Mr. GIUFFRIDA. May I answer that question.

Senator PROXMIRE. Yes, sir.

POPULATION PROTECTION IN ANY EMERGENCY

Mr. GIUFFRIDA. I think it is important you correctly identified the lack of consensus among the scientific community whether there will be a nuclear winter. It needs to be measured against the way we have been addressing protection of the population against any kind of an emergency or threat, not one simply related to war or attack upon the United States.

What we have been doing for the past 3 years is trying to change the system from one where we plan for and respond to emergencies by particular type; that is, wherein the Congress passes a law and then assigns it to a Government agency to implement. In fact, the integrated emergency management system takes the whole spectrum of emergencies and disasters that we face on a continuing basis and identifies what needs to be in place for each of those emergencies, if Government is to fulfill its responsibility of protecting the citizens. And I will be pleased to provide for the record, again, an integrated emergency management systems chart which shows when you list all these disasters and emergencies you find no dynamic difference in requirements, but only order of magnitude differences. You still need communications and warning systems, health delivery, shelter, et cetera.

[The chart follows:]

INTEGRATED EMERGENCY MANAGEMENT SYSTEM REPRESENTATIVE COMMONALITIES

FIRES	HAZARDOUS MATERIALS	TORNADOES/ FLOODS	RADIOLOGICAL ACCIDENTS	HURRICANES	EARTHQUAKES	ATTACK
1. EVACUATION 2. SHELTERS 3. COMMUNICATIONS 4. DIRECTION AND CONTROL 5. CONTINUITY OF GOVERNMENT 6. RESOURCE MANAGEMENT 7. LAW AND ORDER 8. FOOD AND MEDICAL SUPPLIES	1. EVACUATION 2. SHELTERS 3. COMMUNICATIONS 4. DIRECTION AND CONTROL 5. CONTINUITY OF GOVERNMENT 6. RESOURCE MANAGEMENT 7. LAW AND ORDER 8. FOOD AND MEDICAL SUPPLIES	1. EVACUATION 2. SHELTERS 3. COMMUNICATIONS 4. DIRECTION AND CONTROL 5. CONTINUITY OF GOVERNMENT 6. RESOURCE MANAGEMENT 7. LAW AND ORDER 8. FOOD AND MEDICAL SUPPLIES	1. EVACUATION 2. SHELTERS 3. COMMUNICATIONS 4. DIRECTION AND CONTROL 5. CONTINUITY OF GOVERNMENT 6. RESOURCE MANAGEMENT 7. LAW AND ORDER 8. FOOD AND MEDICAL SUPPLIES	1. EVACUATION 2. SHELTERS 3. COMMUNICATIONS 4. DIRECTION AND CONTROL 5. CONTINUITY OF GOVERNMENT 6. RESOURCE MANAGEMENT 7. LAW AND ORDER 8. FOOD AND MEDICAL SUPPLIES	1. EVACUATION 2. SHELTERS 3. COMMUNICATIONS 4. DIRECTION AND CONTROL 5. CONTINUITY OF GOVERNMENT 6. RESOURCE MANAGEMENT 7. LAW AND ORDER 8. FOOD AND MEDICAL SUPPLIES	1. EVACUATION 2. SHELTERS 3. COMMUNICATIONS 4. DIRECTION AND CONTROL 5. CONTINUITY OF GOVERNMENT 6. RESOURCE MANAGEMENT 7. LAW AND ORDER 8. FOOD AND MEDICAL SUPPLIES

Senator PROXMIRE. Obviously, in the event of nuclear winter, you would have to have enormous increase.

Mr. GIUFFRIDA. I don't think if there was a nuclear war winter that the system, as it currently exists, would be able to handle the number of displaced and casualties——

Senator PROXMIRE [interposing]. Of course not. This would have to be an entirely different kind of plan. Then the problem would be whether or not you can save any lives at all. We can save enough so we have at least the remnants of a country so we can begin to make some kind of a comeback.

Mr. GIUFFRIDA. That is precisely correct, and that is a task which the Congress has assigned parts of it to FEMA under those circumstances. The whole intent of all the continuity of Government programs is to assure we would be able, in the face of such a disaster, to reconstruct the social political system essentially the way we have enjoyed it for the past 200 years and FEMA couldn't, nor any other agency do it without the Congress.

STRATEGIC DEFENSE INITIATIVE AND CIVIL DEFENSE

Senator PROXMIRE. There is another scenario that might develop, from the recent discussion we had about a strategic defense initiative, Star Wars. This work, perhaps, the other way. We might have fewer casualties as a result of nuclear war than anticipated in the past. The testimony we had in the Appropriations Committee—and I have been there for all of it—has indicated civil defense would have to play a very, very important role under these circumstances, an increased role if we are going to really do what the President says he hopes to do, which is protect our population in the event of a nuclear war with a strategic defense and civil defense also.

Mr. GIUFFRIDA. Senator, the Civil Defense Act has charged me, as Director of the Agency, to insure we have a dual-use program in place and that those things that we do in the program must not detract or deter or impede the overall program as a part of our national security plan. That is exactly what we are trying to do and what Congress ordered us to do. This system, which we are placing, deals with those things that we face every day.

The year before last, for example, we coordinated, in response to natural disasters, $1,240,000,000 of tax dollars in relief. That is the system that would be on-going so that the trigger mechanism to put the system into operation becomes less critical than the existence of a system which can respond on demand.

Senator PROXMIRE. In 1982, the President announced he wanted to launch a 7-year, $4 billion civil defense program so that in times of crisis, we could have this massive evacuation of our cities and protect 80 percent of the American public from Soviet nuclear attack. Of course, the evacuation, in the event of nuclear winter, would be, I think, impossible. At any rate, is the administration abandoning this idea? The Heritage Foundation, which as you know, is a conservative organization generally supporting the administration on matters of this kind, says the fiscal year 1986 budget marks the end of Mr. Reagan's massive civil defense program. Is that true?

Mr. GIUFFRIDA. Two things I would like to correct. In 1982, the administration did not say that a civil defense program, which included a well-planned, understood, and executed evacuation system, would save the lives of 80 percent of the people. What it said was that it would enhance the chances of survival of up to 80 percent of the people.

Senator PROXMIRE. The word I used was "protect."

DEFINITION OF CIVIL DEFENSE

Mr. GIUFFRIDA. I misunderstood you, Senator. Every year since then when this Agency has appeared before the Congress and requested civil defense money, we have never gotten what we asked for. Not one time. I think that even the Congress and the rest of the bureaucracy have to redefine the term "civil defense" if for no other reason than to obviate this continual misinterpretation of what this term means.

It has come to be perceived, and I think incorrectly and even actually destructively, as solely some kind of futile attempt to protect against an incoming nuclear missile. That is not what it should be. Civil defense should be understood clearly by everyone that it encompasses every reasonable, prudent, legal, and acceptable action that government at every level takes to fulfill its responsibility of protecting the citizens.

And then that takes it out of this specialized misinterpretation and puts it more appropriately into all the connotations of government at every level, working to develop common vocabularies—common standards to deal with the fact that we're planning our program on the 99-percent probability. That is the everyday disaster.

INTEGRATED EMERGENCY MANAGEMENT SYSTEM

Senator PROXMIRE. I appreciate that. Let me get into that area. It is my understanding many State emergency management directors have never been very enthusiastic about the President's proposal about a massive relocation program. They would prefer the resources be channeled into the immediate emergency situations they might face with floods, hurricanes, tornadoes, earthquakes, hazardous chemical spills, radiological discharge, so forth.

As I understand it, since last year, emergency planning for nuclear attack and planning done for other natural or manmade disasters have been joined together in what is called an integrated emergency management system, so the cuts now in civil defense don't just affect nuclear civil defense, they affect all emergency planning across the board; is that correct?

Mr. McLoughlin. That is correct. The integrated emergency management system does envision and capitalize on all functions necessary for emergency management—the warning requirement, the direction control requirement, communications requirement. There are only two ways to protect people—either you evacuate them or protect them in place. There are just no other protective mechanisms available, so it will impact both sets.

Senator PROXMIRE. Is my time about up, Mr. Chairman, or do I have time for one more question?

Senator GARN. Your time is up, but you can ask one more question.

Senator PROXMIRE. You are very kind. Space has improved you. [Laughter.]

EFFECTS OF CUTS IN RADIOLOGICAL EMERGENCY PREPAREDNESS

You were always good, though.

May I ask, because of the 1982 Nuclear Waste Policy Act within the next decade, we will likely be seeing a massive amount of high-level nuclear waste moving on this Nation's highways and rail systems. In fact, there is already a significant amount of those shipments being transported today.

How will the cuts you are taking in radiological emergency planning and response affect FEMA's ability to deal with any nuclear mishaps on our roads and rails today and in the future?

Mr. MCLOUGHLIN. Senator, generally speaking, what we are trying to do is develop a capability to respond to all emergencies, as we said in answer to your last question. We have 205 planners at the State level that are supporting this effort. They are 100-percent federally funded in 1985. We are proposing to fund them 50–50 in 1986. If the States do not pick up their 50–50 share of that funding requirement, which would amount to about $4.2 million totally, then there will be some delay in the updating and upgrading of those plans at the local level, or at least the State assistance to localities. We will have to rely essentially on local government initiative to pick up the slack if the States do not.

Senator PROXMIRE. Thank you. Thank you, Mr. Chairman.

Senator GARN. Senator Lautenberg.

BUYOUTS FOR FLOOD PROGRAM

Senator LAUTENBERG. Very briefly, Mr. Chairman.

Mr. Giuffrida, my compliments to you on the lucidity of some of the responses you have given to the very complicated questions asked by my colleague from Wisconsin. My focus for the moment is going to be on some of the buyout programs that are included in the scope of FEMA.

Your fiscal year 1986 budget recommends $4.7 million in rough terms, same level as last year. What is the likely impact? The shortfall in terms of the requirements, I am told, is about $10.2 million. Your Agency submitted a report indicating $15 million per year will be required, and the budget this year recommends $4.7 million. Do you have any idea how many eligible communities might be excluded from participating because of the inadequate funding?

Mr. BRAGG. Senator, we really have no way to estimate the number of communities because we don't know how many will apply, or what the flooding situation will be. We do know that at the current level of funding we will only be able to fund about a third of what we anticipated. Obviously that——

Senator LAUTENBERG [interposing]. About a third of what could be?

Mr. BRAGG. Yes; that is correct.

Senator LAUTENBERG. You are aware we have a very severe problem in the Passaic River basin in New Jersey. I was born, not in the basin, but in the vicinity, and I know you recently approved a buyout grant for Pequannock, NJ. Have other New Jersey communities submitted applications to your knowledge?

Mr. BRAGG. No other New Jersey community has submitted an application for 1985. We are working with another community in New Jersey for a potential buyout in 1986.

Senator LAUTENBERG. Do you expect any more than the single community?

Mr. BRAGG. We have no indication of any other interests. We generally do get more interest as the year progresses.

CRITERIA FOR PURCHASE OF PROPERTY

Senator LAUTENBERG. The procedures and criteria for allocating funds among eligible communities, do you have a scheme for ranking their application?

Mr. BRAGG. Yes, sir.

Senator LAUTENBERG. What does that comprise?

Mr. BRAGG. It involves the frequency of flooding in the community, the damage that occurred in the community, what the community would do with the land once the property was purchased, and whether the community was willing to put up some sort of matching funds. Pequannock, for example, was the second highest ranked community in terms of our funding priorities for 1985. Therefore, a community that met the standard Pequannock met should easily be funded for 1986.

Senator LAUTENBERG. Do you help them develop the criteria post buyout?

Mr. BRAGG. Yes, sir.

Senator LAUTENBERG. What might that include? What kinds of things would that include—guarantees that no building would take place?

Mr. BRAGG. That's exactly right. The community agrees that no building would take place; they would agree to a plan to convert the land to a park or recreation facility, for example—those kinds of criteria.

Senator LAUTENBERG. Just to conclude, isn't it likely that underfunding the buy-out program is just going to cost more later? Flood insurance, obviously, is almost the only alternative and the cost for that goes up considerably, doesn't it?

Mr. BRAGG. Yes. The report we submitted to the Congress last year indicated that there were long-term savings involved if we could fund the 1362 program at a higher level. OMB has suggested, however, we do have a critical short-term problem and that we all need to reduce our requests. We are trying to comply with that direction.

Senator LAUTENBERG. I hear that elsewhere someplace. [Laughter.]

Let me ask you a functional question. I think it is the responsibility of the Corps, with State agencies, and so forth, to design programs to eliminate the risk or the damage resulting from flooding; is that correct?

Mr. BRAGG. Yes, sir.

Senator LAUTENBERG. How do you coordinate your prospective costs, et cetera, with them, in the event the construction programs, diversion programs, et cetera, don't materialize? Do you supply information to them that helps them in the evaluation in the value of a project?

Mr. BRAGG. We work with them on almost a daily basis on different projects. Mostly, we use their services to help in determining the flood risks to a particular community. If the Corps, however, had a construction project in that community, then we would coordinate with them to determine the flood hazard mitigation resulting from that project and make whatever changes are required to the flood insurance rate map.

Senator LAUTENBERG. Thanks, Mr. Chairman. Thank you.

Senator GARN. Senator Leahy.

CRISIS RELOCATION PLANNING

Senator LEAHY. Thank you, Mr. Chairman.

General Giuffrida, a few years ago we discussed the crisis relocation planning [CRP] and I recall at that time one of the discussions we had was on the plan to evacuate New York City and send them up to Vermont, which is a matter of interest to me and the Vermont Tourist Bureau. [Laughter.]

As I said at that time, we refer to ourselves as the "beckoning country." In typical restrained Vermont fashion, we don't beckon quite that much, as much as we do like people from New York or any of those other southern States, like Massachusetts and New Jersey, coming to visit, but as long as they do it in respectfully in appropriate numbers.

You spent $12 million in 1983 for CRP. Are there any funds in fiscal year 1986 for crisis relocation planning?

Mr. GIUFFRIDA. Before Mr. McLoughlin gives us the details, I would recall that it was 2 years ago and not last year.

Senator LEAHY. Thank you.

Mr. GIUFFRIDA. The answer was FEMA did not make then, and does not make now evacuation plans for a community. We got into some discussion whether it can be done with 15 minutes warning, and the tag-on to my response was that the chances of success in anything, particularly when it deals with large numbers of people, is a function of the thoroughness of the planning and the rehearsals of the plans. And I think that is still a valid answer.

COMMON ELEMENTS FOR ALL EMERGENCIES

Mr. MCLOUGHLIN. Senator, there are no funds in the 1986 budget to do crisis relocation planning specifically. The last year that we did crisis relocation planning was in 1983. Since that time, as our budget has addressed in 1984 and 1985 and again in 1986, we have been working on an integrated emergency management system mode which entails——

Senator LEAHY [interposing]. What is an integrated emergency management mode?

Mr. MCLOUGHLIN. Senator, it is a recognition that there are a common set of functions across all emergencies from the daily emergencies the communities face with hazardous materials, fires, earthquakes, and floods, clear through to nuclear attack. Warning is common to all of them. Emergency public information to citizens is common. Direction control capability is common.

Senator LEAHY. I have a letter from Gordon Lowe from North Hero, VT. Those of you who do not immediately recognize North Hero, VT, it has a population of 442. That is putting it into the top two-thirds——

Senator GARN [interposing]. I didn't see it from space. [Laughter.]

Senator LEAHY. Nor they you, Jake. [Laughter.]

Had they had known they had an opportunity, of course, they would have. [Laughter.]

TRAINING ESSENTIAL TO CIVIL DEFENSE VOLUNTEERS

He wrote to me and said:

> We recently had a structural fire where radioactive materials were found in the basement. Our civil defense chairman volunteer had taken the necessary courses through the State training offices that enabled him to determine if the fire department and rescue service personnel were in immediate danger. We were assured this is only one of many incidents where State training volunteers has been beneficial.

The letter is very complimentary of the State Civil Defense Program and training. Is that part of the program you are talking about?

Mr. MCLOUGHLIN. Yes, training is part of it and training is common to all emergencies.

Senator LEAHY. The reason I ask that is the State of Vermont has told us that FEMA's budget cuts mean no more radiological training for local communities; is that true?

Mr. MCLOUGHLIN. That is not true. It is that the level of funding at the Federal level will not be supported at the same level that it has been in the past.

Senator LEAHY. Which in Vermont's case means no more radiological training for local communities.

Mr. MCLOUGHLIN. Senator, in training and in every one of the other areas that are cut, what we are trying to do is build in flexibility so the State can deal with this problem over a 2-year period. That is to permit the States to make a transition into a reduced Federal funding mode. It is a State choice.

Senator LEAHY. I may want, Director, to have my office follow up with your office. There are some specific questions, I might say, incidentally. In that regard, any time I have called down and asked questions, you and your office have been most helpful and I do appreciate that. You have gone out of your way to do it personally on a number of occasions, and I wish to state I appreciate that very much. It has been very helpful to me.

IMPORTANCE OF CIVIL DEFENSE PROGRAM

The Civil Defense Program in Vermont is a very good one and it is the same in rural Utah. It is based on an awful lot of volunteers working but requiring, really requiring the kind of help you can provide and expertise. There is no way the small towns can train people in these areas, there is no way they can tell them where the changes are, so on. We just don't have the resources and it doesn't make any difference if it is Vermont or any other rural areas. When we have a natural disaster in Vermont, as unfortunately we do have periodically, the two groups who get called out immediately are civil defense and the Vermont National Guard.

Without them I don't know what we would do.

Mr. GIUFFRIDA. FEMA is involved in a variety of ways. The Yankee nuclear powerplant had a big exercise in which the Governor played and we certainly were one of the driving forces on that. Through our National Fire Academy and U.S. Fire Administration, we have all kinds of volunteer-directed programs which, frankly, sprang from the kind of volunteerism you described so correctly.

Senator LEAHY. I, perhaps, had a tad bit of fun on some aspects of the crisis relocation. I don't want to leave anybody with the impression I don't think the Civil Defense Program hasn't been extremely beneficial to us in Vermont and I suspect in a lot of other similarly located rural areas. It has been extraordinarily important. In fact, I cannot imagine what we would have done without it.

Mr. GIUFFRIDA. Thank you, Senator.

Senator LEAHY. Thank you, Mr. Chairman.

Senator GARN. Thank you, Senator Leahy.

SUBMITTED QUESTIONS

General Giuffrida, there are additional questions from other members of the subcommittee which will be submitted to you for your response in writing. I have 22 pages of additional questions I will submit to you for your response. We thank all of you gentlemen for being with us this morning.

Mr. GIUFFRIDA. Thank you, Mr. Chairman.

Thank you, Senator Leahy.

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR GARN

FLOOD PLAIN MANAGEMENT

Question: Why are you proposing to transfer 42 workyears and almost $1.7 million from Flood Plain Management and Comprehensive Emergency Preparedness Planning and Management and Administration?

How long have these activities been charged to Flood Plain Management?

Answer: FEMA is proposing to transfer a total of 42 workyears and $1,681,000 from Flood Plain Management to Comprehensive Emergency Preparedness Planning (33 workyears and $1,313,000) and Management and Administration (9 workyears and $368,000) in order to more accurately reflect their program responsibilities. These activities have been charged to Flood Plain Management since 1981, when they were all part of the State and Local Programs and Support directorate.

Question: What other functions are there within FEMA where an internal transfer would permit the activities to be placed in programs whose description is more indicative of the activities performed?

Answer: Within the Civil Defense, State and Local Emergency Management program request for 1986, there are 125 workyears associated with the management and administration of the regional offices, a decrease of 50 workyears from 1985.

PERSONNEL RESOURCE AUGMENTATION

The Surveys and Investigations staff of the House Committee on Appropriations have provided this Subcommittee with their March 1985 review of FEMA. The report indicated extensive use of sole source contracts to conduct training courses at NETC. It would appear that this device was used to make up for some understaffing at NETC. The report indicated FEMA used a pooling arrangement to identify understaffed positions in new or rapidly expanding offices and take the unused FTE's and allocate them to various administrative offices in Management and Administration (M&A). The House report indicates that at the end of FY 84, the M&A offices were at personnel levels equivalent to 101 workyears above the authorized level of 433 for FY 84 and FY 85 or a 23% increase in Management and Administration.

Question: If FEMA felt the need to move personnel between programs, why did you not come back to the Subcommittee with a reprogramming request?

A General Statement is included in each year's report of the HUD-Independent Agencies Appropriations Subcommittee. Pages 4 and 5 of the FY 84 and also the FY 85 report contain instructions relating to reprogramming and the initiation of new programs. This section indicates that the Chairman of the Committee should be notified prior to reprogramming of funds in excess of $250,000 between programs, activities or elements.

Were you aware of the requirement for notification? This is a matter that the Committee cannot take lightly. Would you please explain what FEMA was attempting to do and how you intend to approach similar workload problems in the future?

Answer: At the time when the augmentation activity was underway, various program areas in FEMA were expanding at a rapid rate requiring support in the areas of personnel, security, acquisition, and administrative support. These support services were vital to accomplishment of the various programs. The augmentation was tracked and the program terminated by the end of FY 1984. In the press of accomplishing its program missions, the Agency failed to heed its responsibility to notify the Committees as provided in the Subcommittee's Report. This oversight is a matter of grave concern to the Agency's management and in the future the Agency's leadership will notify the Committee of any proposals for reprogramming of funds in excess of $250,000 between programs, activities, or elements.

OFFICE OF THE INSPECTOR GENERAL

There have been a number of internal FEMA problems that have come to light during this past year. It appears that an effort has been made to strengthen the independence of the FEMA Office of the Inspector General.

Question: Are there any reasons why FEMA should not have a statutory Inspector General?

Answer: No. The Director has indicated in testimony before Congress that he will accept and work closely with a statutory Inspector General if the Congress passes the necessary legislation.

Question: There are several investigations of the Inspector General that have been turned over to the Justice Department for prosecution. Could you bring us up-to-date as to the status of these cases?

Answer: From January 1980 to April 17, 1985, the Office of Inspector General has referred 122 cases to the Department of Justice for prosecution. A large majority of these involved fraudulent flood and crime insurance claims. There have been 64 convictions. Between April 1, 1984 and April 17, 1985, we have referred 29 cases to the Department of Justice and there have been 8 convictions. It is to be noted that many of these cases have been investigated in conjunction with other agencies, Federal, State and local. Recent Congressional hearings involved testimony concerning activities pertaining to some FEMA contractors. These are currently under investigation by the Department of Justice and the FEMA Office of Inspector General.

Question: Will more than two of the IG's staff be auditing the Emergency Food and Shelter Program during FY 85 on a full-time basis?

Answer: The FEMA IG has assigned two auditors to perform an audit of the Emergency Food and Shelter Program. Preliminary survey work for the audit has begun.

Question: As of March 20, 1985, the FEMA IG was referred 24 cases of fraud related to the Emergency Food and Shelter Program for investigation. Have there been any additional referrals in the past month?

Answer: The FEMA IG has initiated 34 fraud related investigations involving Emergency Food and Shelter Program funds from July 1, 1983 - April 17, 1985. In addition, there have been several instances where information has been referred to this office which has not warranted investigative action and the matter has been referred back to the program office. Since March 20, 1985, this office has received one referral. An investigative case was initiated as a result of this referral.

Question: Are any of these cases from the funding provided by the Congress in March 1983?

Answer: Yes; however, the exact number is not known because we did not track what funding was involved when a case was initiated. Some cases were initiated in July 1983 which was before the second phase was initiated.

Question: Would you please briefly explain how the 3500 organizations directly funded by the National Board Program and the 10,000 organizations who acted as fiscal agents for service providers were audited?

Answer: The National Board contracted with Arthur Anderson in 1983 to audit the program. Arthur Anderson took a sample (459) of the 3500 organizations and audited the records of those organizations to determine eligibility of costs and adherence to program guidelines. Some of the 3500 directly funded organizations provided fiscal services for the balance of the 10,000 service providers which are not directly funded. Therefore, records of some non-directly funded service providers were audited when Arthur Anderson reviewed the activities of aforementioned 3500 organizations. Office of Inspector General auditors will be reviewing that audit and conducting additional test checks deemed necessary.

Question: How long does the audit process take?

Answer: This depends on a number of variables including the objective and scope of the audit, and the availability and condition of the records to be audited. Audits of each Public Law grant may take up to one year.

Question: How long does an IG investigation of this program take?

Answer: The time it takes to conduct an investigation of an allegation of fraud varies from case to case. It has been determined that an average length of time to complete such an investigation by the FEMA IG office is 30 workdays. It is to be noted that most of these Emergency Food and Shelter Program investigations have been initiated by the FEMA IG, worked in conjunction with the local police and turned over to them for final disposition in local courts. In these instances we do not have records reflecting the actual time it takes to complete these investigations.

Question: Does the request for the two additional workyears in the IG's office during FY 86 reflect the expectation that it will take all of FY 86 to complete investigations referred during audits of the Emergency Food and Shelter funds provided in FY 84 under PL 98-396?

Answer: No. The two additional workyears are only for audit work on the Program. There was no additional allocation of resources for investigations. However, given the current rate of referrals for investigation, one staff year of investigative time appears to be necessary.

CIVIL DEFENSE BUDGET

Question: Last year, the subcommittee provided $151.3 million for Civil Defense programs not including FEMA salaries and expenses. This year, you are requesting $89.3 million.

Your prepared testimony indicates that Integrated Emergency Management is the common key to the protection of our citizens in any emergency. This approach is based on a "grass-roots-up" philosophy building on State and local emergency plans and systems.

The impact of the $36 million reduction proposed in Comprehensive Emergency Management areas where the Federal government provides funding for State and local government public safety programs appears to be substantial.

The estimate provided the Subcommittee by the emergency management professionals indicates that over 400 State employee positions and significantly over 600 local government positions would be eliminated by FY 1986 if this budget were enacted.

What does FEMA estimate as the number of State and local government positions that might be eliminated due to reduction of its funding of Emergency Management programs?

Answer: While the impact of reductions in Federal funding for emergency management programs will be substantial, it is impossible to accurately predict the exact number of State and local positions which will be eliminated. Since there are a number of variables, the impact will differ from State to State. However, information provided by States on probable results of reduced Federal funding indicate that the figures below are not unrealistic.

Approximately 540 State employees currently work in programs that are fully funded by FEMA. Federal funding for population protection planning, radiological planning, instrument maintenance and calibration, shelter survey, and training and education will be reduced by 50 percent in FY 1986. Most States have indicated that they will not be able to cover this reduction in Federal support with State revenues. Hence, it is likely that States will be forced to layoff or reassign personnel in these programs. Such actions would equate to a loss of between 225 and 275 State personnel.

In addition, there will be a reduction in both State and local staff funded under the Emergency Management Assistance (EMA) program. EMA is currently a matching program, with the Federal government paying up to 50 percent of staff costs. Approximately 1,300 State and 4,800 local staff are currently funded through this program. A reduction of $6.7 million in EMA funding will likely result in loss of 600-700 State and local personnel. Furthermore, we anticipate that some 300 jurisdictions will no longer participate in the program.

Question: Since the primary strength of the Agency lies in planning for emergencies, what specifically do you plan to do to minimize the effects of the State and local personnel reductions?

Answer: To minimize the impact of these cuts, FEMA is allowing State governments maximum flexibility in meeting these new matching requirements. During a 2-year transition period, we intend to apply this 50-50 ratio to the aggregated costs for all personnel currently funded at 100 percent, thus allowing States to maintain some capability in these critical areas.

TRAINING PROGRAM STIPEND

Question: FEMA is conducting emergency training programs under the Emergency Management Institute and the National Fire Academy at its Emmitsburg, Maryland facility. In the past, the trainee or the individual's employer paid $11.00 a day for food. FEMA paid a stipend to cover travel costs and provided the lodging in on-site dormitories at no cost to the students. Do the stipend reductions affect any other programs?

Answer: Yes, the elimination of stipends would affect the Radiological Emergency Response Team Training course. This 8-1/2 day operations course is conducted at the Nevada Test Site near Las Vegas for FEMA by the Department of Energy. It is designed for individuals who are assigned to State and local government Radiological Response Teams. Included are techniques of a proper response and the management of incidents involving radiological hazards.

This is an intergovernmental effort and EMI's withdrawal from this course would adversely affect the training that NRC, DOE, and DOD all depend upon for off-site nuclear power plant safety.

Question: In FY 1986, FEMA proposes to eliminate the travel stipend. This would appear to put an extra burden on smaller cities, counties and volunteer fire departments whose resources are limited. Would you please identify the number of students that were in residence at Emmitsburg in FY 1984 and FY 1985?

Answer: The following chart indicates resident FY 1985 students in FY 1983 and 1984--a total for FY 1985 would be incomplete:

	1983	1984
National Fire Academy	4146	3883
Emergency Management Institute	2950	3832

In addition, the National Fire Academy conducts special weekend training programs on the Emmitsburg, Maryland, campus, where students receive no stipends. This total for FY 1984 was 1,676 students.

Question: How many were members of volunteer fire departments?

Answer: In FY 1984, of the 3,833 resident students at the National Fire Academy, 229 were volunteer firefighters. These figures do not include individuals who may have registered as members of combination volunteer/paid departments or individuals who registered as career firefighters but also serve as volunteer firefighters in other departments. Also, as mentioned earlier, the NFA provides weekend training opportunities on the Emmitsburg, Maryland, campus. These training programs are specifically designed to attract volunteer firefighters, and the total of 1676 students who attended the courses in FY 1984, almost all are volunteer firefighters.

Specific statistics are not available for volunteer firefighters who attend EMI courses. It is not unreasonable to estimate that of the total EMI resident students, 400 would be volunteer firefighters.

Question: How many were employed by local governments with populations below 50,000?

Answer: In FY 1984, 735 EMI students were employed by local governments with populations below 50,000. For the National Fire Academy, 1,296 students represented communities in this population group.

Question: How many students do you anticipate training at NETC and NETC West in FY 1986?

Answer: In FY 1986, the following student population is estimated for NETC and NETC-West:

NETC

National Fire Academy	4,200
Emergency Management Institute	
Civil Defense	2,387
Non-Civil Defense	497
	7,084

NETC-West

National Fire Academy	1,000
Emergency Management Institute	
Civil Defense	632
Non-Civil Defense	158
	1,790

Question: What funding would be required to provide the full travel stipend for all of these students?

Answer: Based on our most current travel stipend data, we project the following amounts are required in FY 1986:

National Fire Academy		
Emmitsburg	4,200 students	$1,239,000
Carson City	750 students 1/	178,000 3/
TOTALS:	4,950 students	$1,417,000
Emergency Management Institute		
Emmitsburg	4,200 students 2/	$1,260,000
Carson City	790 students	197,000
Las Vegas 4/	300 students	135,000
TOTALS:	5,290 students	$1,592,000

1/ anticipates starting classes in the second quarter.
2/ with stipend payments, it is projected that the number of students will increase to a level of 4,200.
3/ estimate only, no data available.
4/ Radiological Emergency Response Officer program conducted at the Nevada Test Site. It is part of a joint program with the Nuclear Regulatory Commission, the Department of Energy, and the Department of Defense.

SOLE SOURCE PROCUREMENTS

The use of the sole source procurement process has brought some negative publicity to FEMA during the past year. Non-competitive contracts awarded to two 8-A firms, IMR Corporation and Triton Corporation under Section 8(a) of the Small Business Act, have drawn specific interest. From FY 82 through FY 84, FEMA awarded contracts to or modified existing IMR contracts 86 times. Apparently, the Agency was making up for a low level of staffing in the training area by using an extensive amount of outside contract labor.

The information provided the Subcommittee by FEMA indicates that in FY 84, the 8(a) sole source contracts made up an extremely small portion of all FEMA contracts, in the order of 5%. However, IMR and Triton contracts comprised 56% of this set aside category.

Question: Are either of these firms still performing services for FEMA?

Answer: Neither firm has received a new contract award since May 22, 1984. Only minor contract modifications have been awarded to these firms to allow them to complete critical services and critical contract deliverables. The last IMR contract modification expired on May 17, 1985. The last Triton contract modification expired on March 31, 1985.

Question: When was the last time a contract with either firm was modified or extended?

Answer: The last Triton contract modification was executed on February 26, 1985. The last IMR contract modification was executed on March 31, 1985.

Question: What new contracting procedures have you implemented to tighten up the sole source process and when were they initiated?

Answer: FEMA has taken the following steps to tighten its sole source contracting process:

1. On January 11, 1985, the Director appointed a Competition Advocate under the provisions of the Competition in Contracting Act of 1984. In that announcement he indicated his complete support for full and open competition in the acquisition of supplies and services to meet FEMA's needs. This Competition Advocate was given these responsibilities:

a. To review the procurement activities of the Agency and to identify actions taken to promote full and open competition as well as any condition that has the effect of restricting competition.

b. To prepare annual reports on steps taken to increase competition and identification of barriers to competition that still remain.

c. To review all procurement plans for all proposed sole source requirements.

The Chief of the Policy and Evaluation Division was selected to be FEMA's Competition Advocate since he does not have operational contracting responsibilities, thereby giving him a sufficient degree of independence from the contracting process.

2. In order to formalize the role of the Competition Advocate, FEMA has just completed a revision of its procurement regulations which places this function and responsibilities into a statement of official FEMA policy. These regulations have already been reviewed and approved by OMB and will be published in the Federal Register within a couple of weeks.

3. In order to disseminate information with regard to the new emphasis on tighter sole source procurement, FEMA has done the following:

a. Revised its Agency instruction with regard to the Procurement Review Board and Advance Procurement Planning to describe the role of the Competition Advocate.

b. In January of 1985 an Acquisition BUY-LINE newsletter was distributed to every employee in the Agency to explain the Competition Advocate's role and the new emphasis on competition.

c. Standard operating procedures which provide guidance to the contracting personnel have been revised to reflect this same guidance.

Question: How often does the Contract Review Board meet?

Answer: The FEMA Procurement Review Board meets every 2 weeks and on an "as required" basis.

Question: Are there any instances when the recommendations of the Board have not been implemented?

Answer: FEMA employees recognize that the Board members are our highest level of management and are implementing the goals and objectives of the Agency through the procurement plans. Therefore, the Contracting Officer reviews the Statement of Work very carefully and compares it with the approved plan and any recommendations of the Board prior to processing the contract action. The Board recommendations are always fully complied with.

Question: What percent of the sole source contracts proposed were turned down by review of the Contract Review Board in FY 84 and in FY 85?

Answer: The Procurement Review Board reviews proposed procurements to determine whether the procurement process can continue; it does not approve or disapprove the sole source justification. This decision is made by the Contracting Officer in accordance with procurement regulations. However, very often the Board directs the Contracting Officer to investigate a proposed sole source it believes to be inadequate.

Question: Does the Contract Review Board approve all modifications to existing sole source contracts?

Answer: The Procurement Review Board approves all procurement actions over $25,000 regardless of the procurement type, extent of competition or nature of the action.

Question: Is there a dollar amount above which they are involved and if so, what is the level?

Answer: The Board approves all actions over $25,000.

Question: What percent of your contracts were sole source in FY 84 and what estimate would be the comparative figures for FY 85 and FY 86?

Answer: In FY 1984 FEMA awarded 13% of its contract dollars as noncompetitive sole source contracts. This translates to, as shown on the attached, $21 million out of $162 million awarded noncompetitively. This compares very favorably to the Government-wide average which is above 50%. We can project that our percent of noncompetitive contract dollars should be at that same low level or even lower in FY 1985 and FY 1986 due to our new Competition Advocate activities. FEMA has been very successful in awarding a relatively low percent of its dollars as noncompetitive actions.

FEMA CONTRACTING BREAKDOWN

	FY 80	FY 81	FY 82	FY 83	FY 84
COMPETITIVE	$83,732,585	$72,373,206	$83,780,877	$174,597,999	$118,432,199
NON-COMPETITIVE*	24,609,138 (20%)	13,548,853 (13%)	10,398,620 (9.3%)	19,716,315 (9.1%)	21,065,033 (13%)
ORDERS**	296,409	99,303	- 0 -	1,072,622	3,618,505
TARIFF	12,001,000	15,458,200	17,614,934	20,282,307	19,301,650
TOTAL DOLLARS	$120,639,132	$101,479,562	$111,194,431	$215,669,243	$162,417,387
*INCLUDES 8(a)	1,468,724 (1.2%)	1,109,072 (1.1%)	3,542,892 (3.1%)	5,052,290 (2.3%)	7,367,586 (4.5%)

**DELIVERY ORDERS/ORDERS UNDER ANOTHER AGENCY'S CONTRACT

***PERCENTAGE OF TOTAL DOLLARS

Kanawha Valley Evacuation Plans

Question: The Federal government has provided funds for the Integrated Emergency Management System which forms the basis for State and local governments response to natural and man made hazards.

The Kanawha Valley in West Virginia has been put in the spotlight based on the existence of the Union Carbide Plant at Institute. This plant is the sister facility of the Bhopal India Plant, the site of the recent major tragedy.

A true test of the National IEMS would be to go back in time prior to the Bhopal tragedy and look whether there were any plans to deal with a major catastrophe at any one of the 18 major chemical operations in the Kanawha Valley of West Virginia.

Would you please tell us what type of plans were previously developed to deal with a major incident at this location?

Answer: The following plans were developed prior to the Bhopal incident:

- The West Virginia Emergency Disaster Plan (State plan);
- West Virginia Hazardous Materials Emergency Response Plan;
- The Kanawha County Response and Local Jurisdiction Emergency Response Operations Plan;
- The Kanawha Valley Industrial Emergency Planning Council Manual/Contingency Plan; and
- Union Carbide Institute Plant Emergency Procedures Manual.

Question: When were the plans first developed?

Answer:

- The original dates that plans were developed for items listed above as one, two, and four are not known. Whenever the plans were revised, the title page was updated.
- The Kanawha County and Local Jurisdiction Emergency Operations Plan was initially developed in July 1983.
- The initial Union Carbide Institute Plant Emergency Procedures Manual was developed November 7, 1984.

Question: When were they last revised?

Answer:

- o The West Virginia State Plan (No. 1) was reviewed and revised in 1983 and is now under review and revision.
- o The Draft Hazardous Materials Emergency Response Plan (No. 2) was reviewed and revised in December 1984 and is now being reviewed for revision.
- o The Kanawha County and Local Jurisdiction Emergency Operations Plan (Plan No. 3) is now under review and revision.
- o The Kanawha Valley Industrial Emergency Planning Council Manual/Contingency Plan (Plan No. 4) was revised in 1981. It is now under review and revision.
- o The Union Carbide procedures manual (Item No. 5) is not being revised at this time.

Question: How much money has been provided to West Virginia in the last five years to develop IEMS plans?

Answer:

- o There follows the Emergency Management Assistance (EMA) funding to the State of West Virginia for 1981-1985.

FY 81	FY 82	FY 83	FY 84	FY 85
$269,300	$327,500	$354,000	$406,000	$531,792

EMA 50/50 matching funds are used for the salaries and administrative expenses of State and local emergency personnel. These personnel are the primary support for the development of Integrated Emergency Management Systems (IEMS) documentation. IEMS was implemented in FY 84.

Question: Would you please describe what would have occurred in West Virginia that would have ameliorated the effect of a Bhopal type release in the Kanawha Valley?

- o External and internal contingency plans to mitigate response to an accident were already in place. What would have happened is the plans would have been activated and implemented, as appropriate.

  The Regional Response Team in Region III has reviewed and acknowledged the appropriateness of the domino-type organization of these various plans. Once the response capacity for the first plan had been reached, the next plan would have been implemented--from the plant in Institute up to the State level and, if necessary, Federal resources could have been made available for response to a major incident such as Bhopal.

Should a Federal response have become necessary, the most likely vehicle would have been the National Contingency Plan, established under Section 311 of the Clean Water Act and Section 105 of the Comprehensive Environmental Response, Compensation, and Liability Act, which establishes procedures and standards for responding to such releases. Under this Plan, the Environmental Protection Agency, the Chair of the National Response Team, would have taken the necessary steps to activate the Team. This action would have implemented the National Contingency Plan and triggered the resources of other Federal agencies.

RADIOLOGICAL DEFENSE PLANNING AND DEVELOPMENT

There are currently 204 State employees involved in Radiological programs which are 100% funded by the Federal government. These individuals are involved in preparing planning documents, training and maintenance and calibration of the 4 million radiological instruments that have been distributed to the States.

The plans they develop permit rapid response to transportation accidents involving the spill or leakage of radioactive materials, accidents occurring to nuclear power plants and reaction to terrorist activities and sabotage involving radioactive materials.

The States have indicated to the Subcommittee that the proposed FY 86 budget which proposes to change this program to a 50%-50% sharing arrangement would result in the elimination of 107 State positions.

Question: What would be the effect of these reductions on the numbers and adequacy of the radiological instruments that will remain with the States?

Answer: There would be no effect on the numbers and adequacy of instruments in those States accepting the 50-50 percent sharing arrangement at the same level of effort as for prior years. For those States which would not participate some of the instruments would be returned to Federal control for mothballing. Those which could not be retrieved and returned would be abandoned at local level and, without some local support and control, would deteriorate. The expertise and equipment required for quality assurance for these types of instruments is not generally available. Lacking reliable instrumentations, States could not have adequate preparedness capabilities to meet the range of possible radiological emergencies.

Question: What would be the effect of these reductions on the abilities of State and local governments to react to an accident or incident involving radioactive materials?

Answer: There are currently 204 State employees involved in Radiological Programs which are 100 percent funded by the Federal government. These individuals are involved in preparing planning documents, training, and maintenance and calibration of the 4 million radiological instruments that have been distributed to the States.

The plans they develop permit rapid response to transportation accidents involving the spill or leakage of radioactive materials, accidents occurring to nuclear power plants, and reaction to terrorist activities and sabotage involving radioactive materials.

DOSIMETERS

Question: What would be the effect of last year's cap on pilot production of dosimeters if it were extended through the end of Fiscal Year 1986?

Answer: There is no problem in extending last year's cap of 30,000 instruments on pilot production of dosimeters through the end of Fiscal Year 1986. This is a reasonable amount considering the applicable funding and staffing limitations. It is reasonable also since FEMA has close technical control of the Rolla pilot production process which allows for problems to be solved in the context of smaller quantities of completed instruments.

Question: How many units and of what type were completely assembled during Fiscal Year 1985 to date?

Answer: Approximately 3,000 low range (0-200MR)
Approximately 100 high range (0-200R, 0-600R)

Question: Last year, the subcommittee indicated that the optics on the low level dosimeter were inadequate for use under normal office illumination levels and probably also for use in the typical shelter. When could we expect a change in the design of the low level dosimeter? Would you please indicate what these changes might be?

Answer: The design of the low level dosimeter was changed in January 1985 to achieve the best compromise between light transmission and depth of focus. The aperture which controls these parameters was changed from .062 inches to .100 inches. As a result, the latest models are much easier to read under normal office illumination conditions. In the event that further improvements are considered necessary for the low, intermediate, and high range dosimeters, a light condensing system designed by Oak Ridge National Laboratory (ORNL) could be incorporated into the lower end of any model. There are no present plans to do this unless it is found necessary to improve the performance of the intermediate and high range models.

OMB REQUEST

Question: Is the amount requested in your budget justification different from your OMB request?

Would you please indicate those program areas that were increased and those that were reduced?

Answer: The following table indicates the increases or decreases by program element between the OMB Request and the Congressional Request for FY 1986.

FEDERAL EMERGENCY MANAGEMENT AGENCY
Appropriation History by Program
(Dollars in Thousands)

	1985 Current Estimate				1986 Request to OMB				1986 Request to Congress				Increase/Decrease			
	WY	S&E	EMPA	TOTAL	WY	S&E	EMPA	TOTAL	WY	S&E	EMPA	TOTAL	WY	S&E	EMPA	TOTAL
Civil Defense																
A. State and Local Emergency Management																
1. Emergency Management Assistance..	193	$13,006	$57,000	$70,006	193	$10,900	$62,400	$73,300	143	$11,831	$50,300	$62,131	(50)	$923	($12,100)	($11,177)
2. Other S&L Emergency Mgmt.........	16	1,134	1,800	2,934	17	984	1,800	2,784	16	1,074	1,000	2,074	(1)	90	(800)	(710)
Subtotal, S&L Emerg. Mgmt........	209	14,140	58,800	72,940	210	11,892	64,200	76,092	159	12,905	51,300	64,205	(51)	1,013	(12,900)	(11,887)
B. Radiological Defense																
1. Planning & Development...........	9	393	2,974	3,367	13	487	4,500	4,987	9	379	1,274	1,653	(4)	(108)	(3,226)	(3,334)
2. Instrumentation..................	19	832	7,300	8,132	20	675	14,000	14,675	19	802	5,000	5,802	(1)	127	(9,000)	(8,873)
3. Other Radiological Defense.......	0	0	0	0	0	0	500	500	0	0	0	0	0	0	(500)	(500)
Subtotal, Radiological Defense...	28	1,225	10,274	11,499	33	1,162	19,000	20,162	28	1,181	6,274	7,455	(5)	19	(12,726)	(12,707)
C. Population Protection																
1. Population Protection Planning...	36	1,346	8,700	10,046	45	1,877	13,900	15,777	36	1,296	4,200	5,496	(9)	(581)	(9,700)	(10,281)
2. Facility Survey, Eng. & Dev......	113	4,175	4,248	8,423	117	4,604	8,200	12,804	63	2,859	1,948	4,807	(54)	(1,745)	(6,252)	(7,997)
3. Shelter Preparation..............	2	70	0	70	6	262	2,000	2,262	2	66	0	66	(4)	(196)	(2,000)	(2,196)
Subtotal, Population Protection..	151	5,591	12,948	18,539	168	6,743	24,100	30,843	101	4,221	6,148	10,369	(67)	(2,522)	(17,952)	(20,474)
D. Protection of Industrial Capability																
1. Industrial Capability Prot. Plng.	0	0	428	428	3	167	1,700	1,867	0	0	0	0	(3)	(167)	(1,700)	(1,867)
2. Keyworker Protection.............	0	0	1,072	1,072	2	90	2,300	2,390	0	0	0	0	(2)	(90)	(2,300)	(2,390)
3. Other PIC........................	0	0	0	0	1	87	1,000	1,087	0	0	0	0	(1)	(87)	(1,000)	(1,087)
Subtotal, PIC....................	0	0	1,500	1,500	6	344	5,000	5,344	0	0	0	0	(6)	(344)	(5,000)	(5,344)
E. S & L Direction, Control and Warning																
1. Emergency Operating Centers......	21	919	9,200	10,119	22	903	17,100	18,003	21	893	0	893	(1)	(10)	(17,100)	(17,110)
2. State & Local Wrng. & Com. Sys...	11	484	575	1,059	12	487	6,100	6,587	11	472	0	472	(1)	(15)	(6,100)	(6,115)
3. Emrg. Broadcast Sys. Guid. & Asst	8	277	400	677	12	429	7,000	7,429	8	266	0	266	(4)	(163)	(7,000)	(7,163)
4. Other S&L Direct., Control & Wrng	12	415	1,881	2,296	17	629	6,000	6,629	12	399	681	1,080	(5)	(230)	(5,319)	(5,549)
Subtotal, S&L Dir., Cntrl. & Wrng	52	2,095	12,056	14,151	63	2,448	36,200	38,648	52	2,030	681	2,711	(11)	(418)	(35,519)	(35,937)

FEDERAL EMERGENCY MANAGEMENT AGENCY
Appropriation History by Program
(Dollars in Thousands)

	1985 Current Estimate				1986 Request to OMB				1986 Request to Congress				Increase/Decrease			
	WY	S&E	EMPA	TOTAL	WY	S&E	EMPA	TOTAL	WY	S&E	EMPA	TOTAL	WY	S&E	EMPA	TOTAL
F. Research																
1. Research..........................	5	$293	$1,289	$1,582	5	$291	$5,000	$5,291	0	$0	$0	$0	(5)	($291)	($5,000)	($5,291)
2. Systems Integ. & Applications....	1	64	147	211	1	64	200	264	0	0	120	120	(1)	(64)	(80)	(144)
3. Systems Development..............	0	0	576	576	0	0	2,500	2,500	0	0	0	0	0	0	(2,500)	(2,500)
4. Policy and Planning..............	13	610	275	885	13	612	800	1,412	12	535	367	902	(1)	(77)	(433)	(510)
Subtotal, Research...............	19	967	2,287	3,254	19	967	8,500	9,467	12	535	487	1,022	(7)	(432)	(8,013)	(8,445)
G. Training and Education																
1. Instructional Progs. & Materials.	5	209	600	809	5	212	1,327	1,539	5	202	600	802	0	(10)	(727)	(737)
2. Training Field Deployment Systems	18	761	6,848	7,609	18	881	7,300	8,181	18	733	2,980	3,713	0	(148)	(4,320)	(4,468)
3. Resident Programs.................	21	902	2,526	3,428	21	888	3,525	4,413	21	874	1,300	2,174	0	(14)	(2,225)	(2,239)
4. NETC Site Administration.........	22	622	2,782	3,404	23	633	2,813	3,446	20	540	2,266	2,806	(3)	(93)	(547)	(640)
5. NETC West Site Administration....	0	0	1,285	1,285	0	0	6,795	6,795	10	403	882	1,285	10	403	(5,913)	(5,510)
6. Emergency Public Information.....	0	0	877	877	0	0	1,700	1,700	0	0	500	500	0	0	(1,200)	(1,200)
Subtotal, Training & Education...	66	2,494	14,918	17,412	67	2,614	23,460	26,074	74	2,752	8,528	11,280	7	138	(14,932)	(14,794)
H. Telecommunications and Warning																
1. National Warning System..........	32	1,309	10,928	12,237	32	1,300	35,094	36,394	32	1,282	6,124	7,406	0	(18)	(28,970)	(28,988)
2. Washington Area Warning System...	2	84	1,448	1,532	3	129	705	834	2	82	1,085	1,167	(1)	(47)	380	333
3. FEMA National Teletype System....	21	558	4,160	4,718	21	553	7,010	7,563	21	540	1,452	1,992	0	(13)	(5,558)	(5,571)
4. FEMA National Voice System.......	5	91	452	543	5	89	497	586	5	87	497	584	0	(2)	0	(2)
5. FEMA National Radio System.......	37	1,182	7,701	8,883	37	1,177	16,300	17,477	37	1,151	1,785	2,936	0	(26)	(14,515)	(14,541)
6. Telecommunications Sup. Services.	14	432	5,500	5,932	14	429	8,954	9,383	14	421	2,592	3,013	0	(8)	(6,362)	(6,370)
7. U.S. Army Civil Prepdns. Detach..	9	237	800	1,037	9	235	880	1,115	9	228	880	1,108	0	(7)	0	(7)
8. Decision Info. Dist. System......	1	37	600	637	1	36	660	696	1	36	660	696	0	0	0	0
9. DOD Reimbursable Support.........	0	0	750	750	0	0	1,200	1,200	0	0	825	825	0	0	(375)	(375)
Subtotal, Tele. & Warning........	121	3,930	32,339	36,269	122	3,948	71,300	75,248	121	3,827	15,900	19,727	(1)	(121)	(55,400)	(55,521)
I. Automatic Data Processing (S&E).....	20	2,390	0	2,390	20	2,375	0	2,375	20	2,356	0	2,356	0	(19)	0	(19)
Subtotal, Civil Defense.............	666	32,832	145,122	177,954	708	32,493	251,760	284,253	567	29,807	89,318	119,125	(141)	(2,686)	(162,442)	(165,128)

FEDERAL EMERGENCY MANAGEMENT AGENCY
Appropriation History by Program
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	1985 Current Estimate				1986 Request to OMB				1986 Request to Congress				Increase/Decrease			
	WY	S&E	EMPA	TOTAL	WY	S&E	EMPA	TOTAL	WY	S&E	EMPA	TOTAL	WY	S&E	EMPA	TOTAL
Comp. Emerg. Preparedness Planning																
A. Disaster Prep. Improvement Grants...	3	88	0	88	3	87	0	87	3	85	0	85	0	(2)	0	(2)
B. Earthquake..........................	12	398	5,696	6,094	25	919	5,705	6,624	25	900	4,696	5,596	0	(19)	(1,009)	(1,028)
C. Hurricane...........................	9	265	896	1,161	9	262	900	1,162	9	257	896	1,153	0	(5)	(4)	(9)
D. Hazardous Materials.................	13	389	250	639	15	466	1,000	1,466	15	456	250	706	0	(10)	(750)	(760)
E. Dam Safety..........................	5	150	482	632	5	148	482	630	5	143	482	625	0	(5)	0	(5)
F. Hazard Mitigation Assistance........	6	185	250	435	6	183	250	433	6	177	250	427	0	(6)	0	(6)
G. Policy and Planning.................	0	0	0	0	18	726	0	726	18	710	0	710	0	(16)	0	(16)
Subtotal, CEPP.....................	48	1,475	7,574	9,049	81	2,791	8,337	11,128	81	2,728	6,574	9,302	0	(63)	(1,763)	(1,826)
Radiological Emergency Preparedness																
A. Fixed Nuclear Facilities............	67	3,108	3,501	6,609	67	2,545	3,589	6,134	64	2,376	3,581	5,957	(3)	(169)	(8)	(177)
Subtotal, REP......................	67	3,108	3,501	6,609	67	2,545	3,589	6,134	64	2,376	3,581	5,957	(3)	(169)	(8)	(177)
Federal Preparedness																
A. Government Preparedness																
1. Government Preparedness.........	810	33,664	95,792	129,456	991	42,450	164,812	207,262	777	34,409	110,548	144,957	(214)	(8,041)	(54,264)	(62,305)
Subtotal, Govt. Preparedness.....	810	33,664	95,792	129,456	991	42,450	164,812	207,262	777	34,409	110,548	144,957	(214)	(8,041)	(54,264)	(62,305)
B. Emerg. Info. & Coordination Center																
1. EICC............................	8	266	500	766	30	1,231	500	1,731	8	254	500	754	(22)	(977)	0	(977)
Subtotal, EICC...................	8	266	500	766	30	1,231	500	1,731	8	254	500	754	(22)	(977)	0	(977)
C. Resources Preparedness																
1. Resources Assessment.............	8	433	1,050	1,483	8	428	737	1,165	3	263	737	1,000	(5)	(165)	0	(165)
2. Other Resources Planning.........	10	542	452	994	10	536	815	1,351	8	449	815	1,264	(2)	(87)	0	(87)
3. Economic Resources Planning......	8	419	400	819	6	339	350	689	1	287	350	637	(5)	(52)	0	(52)
4. Natural Resources Planning.......	16	865	450	1,315	8	469	450	919	7	457	250	707	(1)	(12)	(200)	(212)
5. Resources Prep. Prog. Integrat...	5	282	194	476	4	213	200	413	3	207	194	401	(1)	(6)	(6)	(12)
Subtotal, Resources Preparedness.	47	2,541	2,546	5,087	36	1,985	2,552	4,537	22	1,663	2,346	4,009	(14)	(322)	(206)	(528)

FEDERAL EMERGENCY MANAGEMENT AGENCY
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	1985 Current Estimate				1986 Request to OMB				1986 Request to Congress				Increase/Decrease			
	WY	S&E	EMPA	TOTAL	WY	S&E	EMPA	TOTAL	WY	S&E	EMPA	TOTAL	WY	S&E	EMPA	TOTAL
D. Mobilization Preparedness																
1. Mobilization Planning............	12	$605	$300	$905	12	$594	$300	$894	13	$628	$300	$928	1	$34	$0	$34
2. Mobilization Exercises...........	13	652	699	1,351	34	1,711	700	2,411	14	673	699	1,372	(20)	(1,038)	(1)	(1,039)
3. Security Planning................	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4. National Def. Executive Reserve..	4	190	227	417	4	187	235	422	4	183	227	410	0	(4)	(8)	(12)
5. Program Integration..............	5	238	0	238	5	235	0	235	3	141	0	141	(2)	(94)	0	(94)
Subtotal, Mobilization Prep......	34	1,685	1,226	2,911	55	2,727	1,235	3,962	34	1,625	1,226	2,851	(21)	(1,102)	(9)	(1,111)
E. Federal Preparedness Policy & Plng																
1. Multiprogram Analysis............	2	110	200	310	2	109	200	309	2	106	200	306	0	(3)	0	(3)
2. Policy & Planning................	19	1,026	579	1,605	19	1,029	580	1,609	19	996	579	1,575	0	(33)	(1)	(34)
Subtotal, Fed. Prep. Pol. & Plng.	21	1,136	779	1,915	21	1,138	780	1,918	21	1,102	779	1,881	0	(36)	(1)	(37)
Subtotal, Federal Preparedness......	920	39,292	100,843	140,135	1,133	49,531	169,879	219,410	862	39,053	115,399	154,452	(271)	(10,478)	(54,480)	(64,958)
Training and Fire Programs																
A. Emergency Management Institute																
1. Instructional Progs. & Materials.	0	0	1,038	1,038	0	0	1,061	1,061	0	0	1,038	1,038	0	0	(23)	(23)
2. Training Field Deployment Systems	0	0	961	961	0	0	985	985	0	0	961	961	0	0	(24)	(24)
3. Resident Programs................	6	244	1,358	1,602	11	499	1,617	2,116	6	236	775	1,011	(5)	(263)	(842)	(1,105)
4. METC Site Administration.........	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
5. METC West Site Administration....	0	0	380	380	8	277	1,737	2,014	0	0	380	380	(8)	(277)	(1,357)	(1,634)
Subtotal, EMI.....................	6	244	3,737	3,981	19	776	5,400	6,176	6	236	3,154	3,390	(13)	(540)	(2,246)	(2,786)
B. National Fire Academy																
1. Instructional Progs. & Materials.	5	260	807	1,067	5	264	811	1,075	5	255	807	1,062	0	(9)	(4)	(13)
2. Training Field Deployment Systems	10	523	1,902	2,425	10	530	1,955	2,485	10	510	1,902	2,412	0	(20)	(53)	(73)
3. Resident Programs................	23	1,231	1,881	3,112	33	1,613	3,062	4,675	23	1,199	464	1,663	(10)	(414)	(2,598)	(3,012)
4. METC Site Administration.........	42	2,247	2,866	5,113	42	2,223	2,911	5,134	40	2,134	2,866	5,000	(2)	(89)	(45)	(134)
5. METC West Site Administration....	0	0	1,500	1,500	2	47	5,736	5,783	0	0	1,500	1,500	(2)	(47)	(4,236)	(4,283)
Subtotal, NFA.....................	80	4,261	8,956	13,217	92	4,677	14,475	19,152	78	4,098	7,539	11,637	(14)	(579)	(6,936)	(7,515)

FEDERAL EMERGENCY MANAGEMENT AGENCY
Appropriation History by Program
(Dollars in Thousands)

	1985 Current Estimate				1986 Request to OMB				1986 Request to Congress				Increase/Decrease			
	WY	S&E	EMPA	TOTAL	WY	S&E	EMPA	TOTAL	WY	S&E	EMPA	TOTAL	WY	S&E	EMPA	TOTAL
C. U.S. Fire Administration																
1. Fire Prevention and Arson Control	4	$189	$4,649	$4,838	4	$216	$6,205	$6,421	4	$178	$3,649	$3,827	0	($38)	($2,556)	($2,594)
2. Fed. Fire Policy & Coordination..	5	230	1,499	1,729	5	250	2,257	2,507	5	218	999	1,217	0	(32)	(1,258)	(1,290)
3. Firefighter Health and Safety....	5	236	1,499	1,735	5	252	2,797	3,049	5	224	999	1,223	0	(28)	(1,798)	(1,826)
4. Fire Data and Analysis...........	6	284	1,150	1,434	6	288	2,441	2,729	6	268	1,150	1,418	0	(20)	(1,291)	(1,311)
Subtotal, USFA..................	20	939	8,797	9,736	20	1,006	13,700	14,706	20	888	6,797	7,685	0	(118)	(6,903)	(7,021)
Subtotal, Training & Fire Programs..	106	5,444	21,490	26,934	131	6,459	33,575	40,034	104	5,222	17,490	22,712	(27)	(1,237)	(16,085)	(17,322)
Flood Plain Management																
A. Flood Studies and Surveys...........	120	4,535	36,902	41,437	87	3,041	56,339	59,380	0	0	0	0	(87)	(3,041)	(56,339)	(59,380)
B. Flood Hazard Reduction..............	65	2,148	830	2,978	73	2,378	6,480	8,858	0	0	0	0	(73)	(2,378)	(6,480)	(8,858)
C. Purchase of Property................	12	389	10,444	10,833	12	385	15,000	15,385	0	0	0	0	(12)	(385)	(15,000)	(15,385)
D. State Assistance Program............	16	517	3,240	3,757	0	0	0	0	0	0	0	0	0	0	0	0
Subtotal, Flood Plain Management....	213	7,589	51,416	59,005	172	5,804	77,819	83,623	0	0	0	0	(172)	(5,804)	(77,819)	(83,623)
Disaster Relief Administration (S&E)...	144	6,638	0	6,638	159	7,296	0	7,296	144	6,400	0	6,400	(15)	(896)	0	(896)
Insurance Activities (S&E).............	60	2,833	0	2,833	59	2,798	0	2,798	0	0	0	0	(59)	(2,798)	0	(2,798)
Emergency Food & Shelter (S&E).........	6	222	0	222	6	224	0	224	0	0	0	0	(6)	(224)	0	(224)
SUBTOTAL, EMERG. PLNG. ASSIST. & SUP....	2,230	99,433	330,026	429,459	2,516	109,941	544,959	654,900	1,822	85,586	232,362	317,948	(694)	(24,355)	(312,597)	(336,952)
Management and Administration..........	435	35,862	0	35,862	452	44,662	9,000	53,662	434	30,122	0	30,122	(18)	(14,540)	(9,000)	(23,540)
TOTAL, FEMA OPERATING PROGRAMS AND MANAGEMENT & ADMINISTRATION....	2,665	135,295	330,026	465,321	2,968	154,603	553,959	708,562	2,256	115,708	232,362	348,070	(712)	(38,895)	(321,597)	(360,492)

FEDERAL EMERGENCY MANAGEMENT AGENCY
Appropriation History by Program
(Dollars in Thousands)

	1985 Current Estimate				1986 Request to OMB				1986 Request to Congress				Increase/Decrease			
	WY	S&E	EMPA	TOTAL	WY	S&E	EMPA	TOTAL	WY	S&E	EMPA	TOTAL	WY	S&E	EMPA	TOTAL
Management and Administration																
A. Office of the Director..............	10	$477	$0	$477	10	$487	$0	$487	10	$464	$0	$464	0	($23)	$0	($23)
B. General Counsel......................	22	1,093	0	1,093	22	1,072	0	1,072	22	1,044	0	1,044	0	(28)	0	(28)
C. Inspector General....................	34	1,820	0	1,820	42	2,422	0	2,422	34	1,695	0	1,695	(8)	(727)	0	(727)
D. Special Programs.....................	2	383	0	383	2	372	0	372	2	363	0	363	0	(9)	0	(9)
E. Executive Administration																
1. Exec. Administrator's Office.....	10	426	0	426	10	431	0	431	10	414	0	414	0	(17)	0	(17)
2. Public Affairs...................	17	911	0	911	17	1,025	0	1,025	17	884	0	884	0	(141)	0	(141)
3. Congressional Relations..........	9	309	0	309	9	383	0	383	9	375	0	375	0	(8)	0	(8)
4. International Affairs............	8	427	0	427	8	523	0	523	8	416	0	416	0	(107)	0	(107)
5. Equal Opportunity................	5	243	0	243	5	268	0	268	5	232	0	232	0	(36)	0	(36)
6. Security.........................	13	705	0	705	13	1,295	0	1,295	13	685	0	685	0	(610)	0	(610)
F. Acquisition Management..............	32	1,252	0	1,252	32	1,431	0	1,431	31	1,170	0	1,170	(1)	(261)	0	(261)
G. Personnel...........................	46	2,314	0	2,314	46	4,328	0	4,328	45	2,195	0	2,195	(1)	(2,133)	0	(2,133)
H. Comptroller.........................	79	3,477	0	3,477	79	3,841	0	3,841	78	3,361	0	3,361	(1)	(480)	0	(480)
I. Prog. Analysis & Evaluation.........	14	804	0	804	14	824	0	824	13	605	0	605	(1)	(219)	0	(219)
J. Administrative Support Staff........	66	2,014	0	2,014	66	1,985	0	1,985	62	1,829	0	1,829	(4)	(156)	0	(156)
K. Other Admin. Expenses...............	0	11,552	0	11,552	0	13,613	0	13,613	0	8,100	0	8,100	0	(5,513)	0	(5,513)
L. Automatic Data Processing																
1. ADP Support......................	68	4,281	0	4,281	68	4,242	9,000	13,242	67	3,153	0	3,153	(1)	(1,089)	(9,000)	(10,089)
2. Administrative Telephones........	0	2,112	0	2,112	0	3,886	0	3,886	0	2,112	0	2,112	0	(1,774)	0	(1,774)
3. Word Processing..................	0	1,102	0	1,102	0	1,862	0	1,862	0	702	0	702	0	(1,160)	0	(1,160)
M. Regional Operations.................	0	0	0	0	9	372	0	372	8	323	0	323	(1)	(49)	0	(49)
Subtotal, Management & Admin........	435	35,862	0	35,862	452	44,662	9,000	53,662	434	30,122	0	30,122	(18)	(14,540)	(9,000)	(23,540)

Question: What impact will these changes have upon the programs?

Answer:

CIVIL DEFENSE

A. State and Local Emergency Management

1. Emergency Management Assistance

- Prevent the planned expansion of the program to approximately 300 new jurisdictions.
- Termination of the program in approximately 300 jurisdictions presently receiving EMA funds.
- Result in the estimated loss of 600 to 700 trained emergency managers and supporting staffs, as well as some reduction in State level personnel.

2. Other State and Local Emergency Management

- A reduction of the number of paid military reservists in the Individual Mobilization Augmentation (IMA) program by one-third in FY 1986.

B. Radiological Defense

1. Planning and Development

- Revisions of current guidance will be delayed.

A FEMA conducted survey of the States found that 45 of the 48 States would eliminate or reduce the radiological preparedness planning effort. Thirty-three States indicated that they would be forced to layoff or reassign the Radiological Defense Officers.

2. Radiological Instrumentation

The Radiological Instrumentation program is reduced to a level which is estimated to be the minimum necessary to sustain a Federal capability to provide for radiological defense as required by the Federal Civil Defense Act of 1950, as amended.

- No research and development effort will be possible on new, improved instrument types.
- Procurement of only batteries and supplies needed for the existing inventory of 4.3 million instruments. No procurements of dosimeters or chargers.

- Modify the logistical support system, as required, to preserve the inventory of instruments. This may require the moth-balling of significant quantities of instruments returned by States that discontinue the Radiological Instrument Inspection Maintenance and Calibration (RI/M&C) program.

- Change the RI/M&C program from 100 percent Federal funding to a 50/50 matching fund basis. This will result in significant unavoidable losses in trained personnel as some States will not be able to participate. In addition, most States will be unable to maintain a four-year cycle of instrument maintenance and calibration. Based upon a FEMA-conducted survey of each State, eight States (with a combined total of 18 full-time State FTE's) have indicated they will no longer participate in the RI/M&C program under the matching fund concept. The other States have indicated they will reduce staffs by a total of 35 State FTE's nationwide. This represents a total reduction of 53 State RI/M&C FTE nationally (36.1 percent below Fiscal Year 1985 total of 147 State RI/M&C FTE). Termination costs associated with these personnel reductions will amount to approximately $742,000. Attempts will be made to avoid losing instruments by offering non-participating States the option of returning instruments to Federal control, where they will be held in secure storage and preserved in a condition that would make them useful and reliable.

3. Other RADEF

In Fiscal Year 1985, FEMA allocated no funds to this program element. The Office of Management and Budget request provided for developing a program to study and evaluate the various countermeasures; e.g., decontamination that can be used to reduce radiation exposure to people, accumulated exposure of emergency workers, and to accelerate recovery at State and local levels.

The following will not be pursued in 1986:

- Identification of in-place capabilities and methods required by essential facilities and industries that may require radiological decontamination in the event of a radiological emergency.

- Identification of locally available resources (equipment and instruments) and training requirements for decontamination activities under various radiological emergency conditions.

- Identification of resources not locally available which are unique to decontamination and may have to be procured and maintained at the Federal level for use in all types of radiological emergencies.

- Determination of special instrumentation requirements unique to decontamination; e.g., directional survey meters.

- Identification of community life support facilities and resources, which may require immediate decontamination in a radiological emergency.

C. Population Protection

1. Population Protection Planning (PPP)

Although the program is authorized 205 State planners Federally-funded at 100 percent, their numbers have dwindled to about 196 and will continue to decline, since funding for this program has not increased since FY 1982.

The FY 1986 budget request is $4.2 million and will rely upon 50 percent Federal and State matching funds. However, a FEMA survey conducted in March 1985 indicated that 48 of the 52 States (and State equivalents) that replied to the survey would have to reduce or eliminate those planners currently employed if a 50-50 Federal/State matching funding program is implemented in FY 1986.

2. Facility Survey, Engineering and Development

By reducing the $8.2 million budget request for Facility Survey, Engineering and Development to $1.948 million, the following impacts will be effected:

- It was planned to survey 250 jurisdictions to meet population protection planning requirements. The reduction will cut the jurisdictional areas surveyed down to 85.

- The estimated number of State Facility Survey Staff presently on-board is 65. Of these 65 personnel, an estimated 27 will have to be laid off based on indications from the States. Some States will drop from the Facility Survey program due to the 50/50 match conversion.

- Termination costs provided by the States for laying off the above 27 State staff are estimated to be $188,400.

- Prior commitments with local officals would have to be broken for planned jurisdictional areas to be surveyed for multi-hazard survey population protection.

- It will be necessary to eliminate the 50 FTE of college students hired to perform multi-hazard shelter surveys.

- The following courses will be eliminated:

  ° Multiprotection Design Summer Institute which encompasses these courses:

    -- Earthquake Protective Designs

-- Wind Engineering
-- Designing Building Firesafety
-- Flood Protective Designs

° Two Fallout Shelter Analyst (FSA) courses

° Protective Construction.

3. Shelter Preparation

By reducing the $2.0 million budget request for Shelter Preparation to zero dollars, the following impacts will be effected:

- Requirements of specific emergency services developed in 1985 were to be reviewed and upgraded accordingly; the budget reduction will eliminate this important task.

- Pilot projects conducted by 10 selected local communities, one in each FEMA Region, will be eliminated.

D. Protection of Industrial Capability

The FY 1986 budget as submitted to Congress requests no program funds for activities related to protection of essential industry or keyworkers. However, in-house effort will focus on providing advice, assistance, and training to industries on measures to mitigate and respond to emergencies of all types. This effort will include providing an industrial protection guide for industry planners as well as training courses at FEMA's National Emergency Training Center. FEMA will also work in close cooperation with DoD to identify essential industrial facilities and develop approaches to planning for their protection. The FY 1986 request as submitted to OMB would have provided for additional effort in areas such as, an experimental program on industrial hardening alternatives, studies of post-disaster bottlenecks, field projects with industry to identify keyworkers, and expanded training on emergency management for business and industries.

E. State and Local Direction, Control, and Warning

1. Emergency Operating Centers (EOC)

The major impacts on this program element as a result of the reduction are:

- No EOC development.

- Commitments broken with 6 States and 30 local governments where Phase I projects were funded, but cannot be developed in FY 86.

2. State and Local Warning and Communication Systems

The most serious impact on this program element as a result of the reduction is that no funding for Operation SECURE equipment will be available, impeding States from developing dedicated, reliable, and survivable emergency communications capabilities.

Other major impacts are:

- No funding for RACES equipment, leaving many jurisdictions with no back-up communications.
- No funding for radio activation conversion of warning systems. Wire line systems are not reliable, or survivable, and very costly to operate.

3. Emergency Broadcast System (EBS) Guidance and Assistance

The most serious impact on this program element as a result of the reduction is that no additional EBS stations will be protected.

Other major impacts are:

- There will be no repair or replacement of equipment at existing protected EBS stations.
- Relay networks will not be provided to those States with deficient statewide EBS interconnects.
- The long-term impact will be the rapid erosion of the EBS capability which has been developed during the past 10-15 years.

4. Other State and Local Direction, Control, and Warning

The most serious impact on this program element as a result of the reduction is that no additional EBS stations or EOC's will be protected.

Other major impacts are:

- Only limited repair parts will be available for those facilities that are protected.
- There will be no equipment purchased.
- There will be no engineering surveys of facilities that are to be EMP protected.

The long-term impact will be rapid deterioration of those facilities presently protected.

The major impacts on the Maintenance and Services program element as a result of the reduction are:

- According to a survey conducted by the American Public Works Association in 1984 of local government Emergency Services Offices, power generators, overall, were 15 to 20 years old and in need of repair or replacement. This repair or replacement would not take place.

Other major impacts are:

- The emergency systems will not be in a state of readiness when needed.
- There will be a greater number of existing equipment and facilities which will have to be repaired and eventually replaced.
- There will be no facility inspections.

F. Research

1. Research

A minimal research effort will be conducted in FY 1986. The FY 1986 request as submitted to OMB would have provided for a much greater research effort in many areas of applied research relating to emergency management.

2. Systems Development

Specific projects planned for FY 1986 which will be deferred include:

- Completion of a computerized capability status reporting and evaluation system which aggregates data from numerous sources and displays information in a format which facilitates identification of problem areas. Such a system will use current computer technology to make it much easier for emergency managers to use existing data for decisionmaking.
- Development of prototype software and procedures which will facilitate State and local use of the Hazard Identification, Capability Assessment, and Multi-Year Development Plan data base for State and local emergency management purposes.
- Development and delivery of a State tabletop exercise which would enhance State capabilities to plan for and improve information use in resolving continuity of government issues.

G. Training and Education

At the Emergency Management Institute (EMI), there will be significant reductions in the number of students trained, both on campus and off campus, due to budget reductions. These reductions are in the resident training, instructional materials development, field training, and printing accounts. Additionally, EMI will reduce materials made available to States.

H. Telecommunications and Warning

With the exception of the Washington Area Warning System (WAWAS) and FEMA National Radio System (FNARS) upgrades, the planned expenditures rate does not allow for any modernization of existing telecommunication and warning equipment. The FY 1986 budget request, in actuality, considering inflation and potenital rate increases, allows only for continued operations and maintenance of the different systems. It is estimated that it would take 1-3 additional years at an increased level of funding from the time of authorization of funds to complete the modernization programs begun in 1984 and 1985. For example (in FY 1985 dollars), we estimated that it would take approximately $12 million to complete the FNARS modernization program; $5 million to complete the FEMA National Teletype System (FNATS); $22 million to complete the Meteor Burst/National Warning System (NAWAS) upgrade; and approximately $2.5 million to complete the Digital Electronic Private Automatic Branch Exchange (EPABX) program.

FEDERAL PREPAREDNESS

A decrease of 35 workyears in Resources Preparedness and Mobilization Preparedness included ten workyears intended for use in the FEMA Regions to extend and deliver mobilization preparedness capabilities to industry and Federal, State, and local government entities. Without these ten workyears, enhancement of this effort will be difficult as there are no existing resources directly devoted to this purpose.

Mobilization readiness of our military forces without concomitant readiness of a civil support base is inconsistent and not in balance with national objectives. Our national posture requires the support of the civil sector of government to work in coordination with the military so that a balance exists between front line military forces and the rear line logistical support in the United States. FEMA's mission is to promote and coordinate the civil support sector, not just in headquartes, but throughout the interagency regional structure.

The reduction of 25 workyears in Resources Preparedness reflects completion of the stockpile goals. In addition, the reduction will result in elimination or substantial reductions in the following:

- Policy oversight for the Defense Protection Act priorities/allocation program under Title I; voluntary agreements under Title VII; and industrial or infra-structure resources interface with industry. Development of a system of priorities and allocations for NATO allies.

- Support for the Emergency Mobilization Preparedness Board Working Groups on Health, Industrial Mobilization, Human Resources, Economic Stabilization and Public Finance, Food and Agriculture, and Working Group 87. No National Plan of Action initiatives can be supported at this level.

- Damage assessments under the Nuclear Detonation System in support of Continuity of Government activities.
- Development of the Emergency Management Information System (EMIS) to assist senior responsible officials during emergencies.
- Planning for National Disaster Medical System and repatriation of non-combatant civilians.

TRAINING AND FIRE PROGRAMS

The National Fire Academy (NFA) and Emergency Management Institute (EMI) both had student stipends eliminated and the U.S. Fire Administration (USFA) programs were reduced by the elimination of the increases provided in the FY 1985 appropriation.

The impact of eliminating student stipends from EMI and the NFA is uncertain at this time. It is expected there will be some impact.

The USFA programs will be limited in the following areas:

- The Community Volunteer Fire Prevention Program will not expand to all 50 States as soon as anticipated and second and third year funding of the local projects will be reduced.
- Master planning and evaluation services to State and local governments will be limited.
- Firefighter health and safety studies will be reduced in scope and duration.

Rather than eliminate programs, the existing ones will be extended over a greater period of time when possible, so as to lessen the impact on programs to save lives and reduce fire losses.

DISASTER RELIEF ADMINISTRATION

The initial FEMA budget submission to OMB contained a request of $753,000 for 15 additional permanent positions and related salaries and expenses funds to support Disaster Assistance programs. The increase would help address critical program management requirements based on historical experience during the past 10 years under P.L. 93-288 of the real levels of permanent full-time personnel necessary to ensure adequate program administration and oversight.

The ability to activate Disaster Assistance Employees (DAE's) provides essential support for disaster field operations. However, the availability of permanent staff for management and direction of those DAE's can be a potential problem under our current limitations. This is especially true regarding the prospect of multiple concurrent or extremely large scale disasters. Further, even after field offices close, many aspects of disaster assistance continue in an active mode for a considerable time. This can be particularly true for administration and monitoring of public assistance projects which, because of their complexity and scope, frequently cover several years and involve millions of dollars in obligations from the President's Disaster Relief Fund.

Those field office and ongoing disaster-related functions should be managed by permanent staff in order to ensure most efficient delivery of assistance for applicants as well as continuity and thorough monitoring on the program side. Using DAE's to provide important field office or ongoing assistance delivery functional support has been necessary under current permanent full-time personnel limitations.

The proposed increase would allow for more permanent staff and would lessen the need to rely on DAE's in that capacity.

The real net increase in cost occurs only from those elements of permanent personnel compensation not provided to DAE's, primarily retirement, health insurance, and vacation benefits, estimated at $56,000. Currently, the salary and expense costs accrue to the President's Fund. The requested increase would, in effect, transfer that burden to the Salaries and Expenses Appropriation, with an associated increase for benefits as noted above. The great advantage would derive from improved management resources available on a permanent continuing basis to ensure most timely administration of disaster assistance.

MANAGEMENT AND ADMINISTRATION

Word processing, Automatic Data Processing (ADP) support services, and administrative telephone line items were reduced to reflect a government-wide decrease in management and administration. No funds were requested in the congressional submission for the Information Systems Planning program.

	(In thousands of dollars)	
Program	1986 Request	1986 Passback
Word Processing	$1,862	$702
ADP Support	4,242	3,153
Administrative Telehpones	3,886	2,112
Information Systems Planning	9,000	...

The decline in funding will force FEMA to reduce its word processing capability. In addition, FEMA will have to curtail its commitment to provide improvement to its office automation program in support of and in accordance with the OMB Reform 88 Program and the EOP Executive Office Data Link (EODL) Project ordered by the President.

No discretionary funds will exist in 1986 for ADP items; such as, systems integration, engineering and technical assistance, and the development of the FEMA distributed data processing system.

The cost efficiencies and paperwork reduction planned through the institution of technological and productivity improvements will not be realized, since FEMA must table major plans to replace outmoded and inefficient equipment and software with standardized and more flexible facilities. These improvements would result in significant long-term cost savings in both FTE's and processing charges.

The administrative telephone system will incur a significant shortfall in FY 1986 if service is maintained at the current level. Currently, FEMA is reviewing options for managing telephone expenses. One option is to decrease the level of services provided. Other options include, instituting a partial chargeback system to those FEMA organizational elements that have special requirements.

As a new budget line item, the Information Systems Planning program was created to capitalize on the 1986 agency-wide initiatives to ensure the efficient planning, acquisition, and use of automated information technology that is central to the success of FEMA's programs.

The Information Systems Planning program was developed in response to the Paperwork Reduction Act of 1980. It establishes procedures for all FEMA elements to acquire information systems and services in a cost-effective, integrated manner. Without funding, FEMA cannot implement key information systems initiatives that will provide the long-term savings and productivity improvements as recommended by the Grace Commission Report and Reform 88.

CRIME INSURANCE

Question: Last year, the Appropriations Subcommittee conferees provided conference report language (98-1159) indicating that the Federal Crime Insurance Program was given a year final extension and indicating the time was provided for States to start setting up programs of their own.

What progress has been made in the four States that represent over 75% of the policies towards setting up their own program?

How many policies are there currently under the program and how does this compare to last year?

Answer: Of the four States which together represent over 75% of the crime insurance policies in force (New York, Pennsylvania, Florida, and California), New York and Florida have requested lists of policyholders in their jurisdictions. In addition, the Department of Insurance for Pennsylvania and Florida — are the only States other than New York with more than 2,000 policies -- have indicated that their States will be able to handle their business if the Federal program expires. A letter from the Insurance Commissioner of the State of Florida is included for the record.

State of Florida

Department of Insurance and Treasurer

THE CAPITOL
TALLAHASSEE 32301

April 11, 1985

Mr. Jeffrey S. Bragg
Federal Insurance Administrator
Federal Emergency Management Agency
Washington, D.C. 20472

Dear Mr. Bragg:

This will acknowledge and thank you for your letter of April 3, 1985 concerning the extension of coverage available through the Federal Crime Insurance Program. We understand that this is the final extension to be granted and that this authority will expire on September 30, 1985.

Florida has only six percent of the total policies currently in force; however, we are taking steps to ensure there will be no availability problems experienced when the Federal Program ends. We are strongly supporting proposed legislation this Session which would form a Joint Underwriting Association for property and casualty insurers for the purpose of underwriting crime insurance. This proposal duplicates the Federal Program on a state level.

I particularly appreciated your comments concerning the states' ability to resolve insurance availability problems as they have arisen. Your continued vocal support of state regulation of insurance is important. Thank you for working with the insurance commissioners in this regard.

Sincerely,

Bill

Bill Gunter
Insurance Commissioner
and State Treasurer

NATIONAL DEFENSE STOCKPILE

1. Question:

The Strategic and Critical Materials Stock Piling Act requires that the stockpile inventory be sufficient to cover U.S. needs for not less than three years of a national emergency.

Last year, you indicated that in order to meet the $16.7 billion stockpile goal required purchases of $9.8 billion in additional materials.

One year later, are you any closer to meeting your goals?

Answer:

Yes. Acquisitions for the National Defense Stockpile for Fiscal Years 1984 and 1985 currently total $117 million.

Restructuring of the stockpile includes not only purchases of new materials, but also the upgrading of existing inventories of chromite and manganese ores to ferrochrome and ferromanganese. $34 million in excess materials were exchanged in Fiscal Year 1984 as part of the President's ferroalloy upgrading program. The upgrading program is targeted at $42 million in Fiscal Year 1985.

2. Question:

Would you please make a comparison of the current inventory with the stockpile goals:

Answer:

$7.1 billion of stockpile inventory is held against goals totalling $17.0 billion. $3.3 billion of a total $10.4 billion is not needed to meet the stockpile goals. This $3.3 billion is described as "in excess of stockpile goals".

FY 1986 Civil Defense Budget

Question: Your FY 86 budget reflects a 94% reduction in State/Local direction, control and warning from the FY 85 appropriations.

Would you please explain the $700,000 budget request in light of FEMA's desire to emphasize and encourage State and Local Emergency Preparedness?

Answer:

° Sustain Oak Ridge National Laboratory support to EMP program, including parts inventory, warehousing, and technical assistance. ($300,000)

° Maintain minimum level of EBS plans and procedures testing. ($50,000)

° Provide technical assistance to ensure: (In-house FTE)

  - Development of State and local operational EBS plans.
  - Continuity of EOC development where Federal funds are not required.
  - Upgrading of State and local operational plans in telecommunications.
  - Orientation and implementation of computerized microwave system modelling capability to States.
  - Implement State and local Emergency Support Services program. (i.e., Fire Police, Rescue, Medical, Public Works, etc.)

° Initiate contract activity to: ($350,000)

  - Conduct multi-service technical workshops and planning forums in Emergency Support Services.
  - Provide technical support on effects of capability assessment in development of a maintenance program.
  - Determine capability levels of EOC's in graded EOC concept.
  - Implement EOC statistical computer evaluation model.
  - Develop graphics display - terminal communications and control briefing.

FLOOD INSURANCE AND DISASTER PAYMENTS

Question: The Grace Commission with its private sector survey on cost control had as its objective to cut the Federal government and its expenses down to a manageable size. One of the Commission's 36 task forces looked at the National Flood Insurance Program (NFIP).

Last year, you indicated that the two recommendations made by the Commission were:

- take steps to make NFIP actuarially sound

- Eliminate disaster payments for insurable losses

Would you please comment on your FY 86 budget in light of these recommendations?

Answer: Recommendation FEMA 1 of the President's Private Sector Survey on Cost Control (Grace Commission) recommended that the NFIP be made actuarially sound. FEMA established its goals of making the NFIP financially self-supporting in 1981, two years before the Grace Commission made its recommendation. Through 1986, the coverage and rating changes made in order to reach that goal will have resulted in approximately $600 million in savings to the taxpayer.

Recommendation FEMA 2-1 of the President's Private Sector Survey on Cost Control recommended that FEMA (1) eliminate public assistance to State and local governments for insurable items and (2) eliminate the "one bite free" policy, as provided for in Senate Bill 2250. FEMA has continued to support this legislative initiative which was also included in S.1525, H.R. 3040, and S. 2517, none of which was passed by the 98th Congress. FEMA's 1986 Budget Request for the NFIP includes savings of $20 million which could result from increased flood insurance policies if the above recommendations were fully implemented.

Section 9 of S.2517 would have expanded the insurance mandate of the Act by establishing that in order for public facilities and eligible private nonprofit facilities to qualify for all of their otherwise eligible disaster assistance after a flood, they would have had to be covered by available flood insurance prior to the flood. Current section 314 of the Act only requires such insurance prospectively. This proposal would only apply to insurable structures. It cannot be adopted by rulemaking because it would change the current mandate of section 314 of the Act. FEMA has proposed to OMB that the initiative be resubmitted in a new legislative package for consideration by the 99th Congress.

SENIOR EXECUTIVE POLICY CENTER

Question: Would you please explain the objective of the Senior Executive Policy Center and the relationship to the Emergency Management Institute?

Answer: The Senior Executive Policy Center was established in 1983. The primary purpose of the Center is to provide policy makers a forum for dealing with contemporary issues in emergency management. Through conferences and seminars, senior executives from government, business, education and emergency-related professions increase their understanding of important emergency management issues; consider and propose solutions to problems relating to effective emergency management; and prepare themselves to better implement comprehensive emergency management programs in their jurisdictions and speciality areas.

The ideas and proposals that come out of these forums are to amend and/or enhance the existing curriculum of the Emergency Management Institute. By attracting experts and professionals in diverse fields, the Senior Executive Policy Center programs provide the Emergency Management Institute a wealth of knowledge and talent in shaping their curriculum for emergency managers.

Question: How much funding was used for this purpose in FY 1984 and what do you anticipate spending in each year in FY 1985 and FY 1986?

Answer: In FY 1984, we used $336,254, and we have used no funding in FY 1985. We plan to expend approximately $186,000 of funding in FY 1986.

Question: What would the effect be of providing no funds for this activity in FY 1986?

Answer: The 13 seminars planned for FY 1986 would be cancelled and the opportunity to address the unique contemporary emergency management issues by public and private sector executives would be lost.

Question: Would you please provide a detailed list of all conferences, meetings and other group activities conducted by the Center in FY 1984 and FY 1985 to date?

Answer: The following is a list of the activities conducted by the Senior Executive Policy Center in 1984:

Course	Number of Offerings	Number of Students
American Public Works Association Emergency Management Planning Conference	1	16
Law Enforcement Training in Emergency Training	1	36
National Capital Planning Conference	1	32
Consequences/Major Civil Incidents	1	62
Emergency Management Primary/ Secondary School	1	13
Emergency Management Public Adminstration Education	1	33
Legal Aspects in Emergency Management	1	36
Managing the Disaster Reponse	1	39
Media Relations in Emergency Management	1	31
Issues/Problems Concerning the Handicapped (Off Campus)	1	24
Formulating Public Policy (Off campus)	12	244
Total	22	566

There are no activities in 1985.

EMERGENCY MANAGEMENT INSTITUTE

Question: During FY 84, about 19% of the Emergency Management Institute Budget ($7.4 million) for field training programs was used for an exercise assistance program. Is the exercise assistance program being repeated in FY 1985?

Answer: Yes, we will be repeating the exercise assistance program in FY 1985.

Question: How much funding is allocated for this activity in FY 1985 and FY 1986?

Answer: In FY 1985, the amount allocated remains constant at approximately $1.4 million. In FY 1986, the proposed budget, although reduced in other areas, reflects approximately the same level as requested in FY 1985. However, it should be noted that if the Exercise Assistance funds must be taken from the reduced base of field funding, then field training would be severely impacted.

Question: Would you please briefly explain this program and the exercises conducted?

Answer: The Exercise Assistance programs provide a continuum for comprehensive emergency preparedness from mitigation through preparedness and response to recovery which was not available at the local level before. The program's first priority is to assist local government. The program stresses full activation of the local emergency management system to include real-time, on-line, stressful, multi-agency, intergovernmental activation and response activities. Scenarios may vary (civil disturbance, natural disaster, national mobilization, hazardous chemicals and radioactive materials) as needs and deficiencies are determined by State and local governments by hazard vulnerability analysis.

MULTI-HAZARD RESEARCH

Question: What Research did you conduct under the Multi-Hazard Research Program in FY 84 and what will you do in FY 85 and FY 86? Would you please indicate the dollar value of each of the research activities for each of the three fiscal years?

Answer: FEMA has supported research-related activities under the Federal Preparedness Program's Multi-Program Analysis (in FY 1984, Multi-Hazard Analysis) category.

In FY 1984, two projects were partially funded in this category. One provided analyses of earth covered structures as dual-use shelter facilities, and the other was to transfer state-of-the-art computerized mapping of national transportation networks onto FEMA's computers and decision support systems. These obligations totalled $200,000 in 1984.

In FY 1985, FEMA is supporting a variety of information systems projects, including partial support of the Natural Hazards Research and Information Clearinghouse, the National Council on Radiation Protection and Measurements, and hardware and services to support FEMA staff access to computerized Federal research in emergency management supported by other agencies. A new initiative, the Emergency Management Research Institute, will provide sophisticated technical and policy analyses to FEMA on research and development in all hazard areas. These projects will involve total obligations of $200,000.

Funds requested in this category for FY 1986 will focus on the continued support to FEMA staff with computerized access to Federal R&D databases and the Emergency Management Research Institute. Obligations will total $200,000.

The specific projects and dollar values are:

1984	
Dual-use Shelter Construction	$ 95,000
National Transportation Systems (Computerized Mapping)	105,000
1985	
Natural Hazards Research & Information Clearinghouse, University of Colorado	50,000
National Council on Radiation Protection & Measurements	9,205
Annual Analytic Census of Disasters & Emergencies	100,000
Access to Library of Congress Databases	4,030
Subscription to National Technical Information System and DROLS System	500
Emergency Management Research Center	36,265
1986	
Access to Computerized Databases on Federal R&D	5,000
Emergency Management Research Institute	195,000

FEMA ADVISORY BOARD MEMBERS

Question: The primary outside input the Agency gets on the proposed content and direction of its future research comes from the FEMA Advisory Board. Would you please provide a full list of names and affiliations of Members of the Board?

Answer: The FEMA Advisory Board (FAB) is not the primary input. Outside input regarding research needs comes from many quarters of the emergency management community. However, the FAB does occasionally advise the Agency regarding general research priorities and relative levels of effort associated with research goals. The FAB is not provided information about specific FEMA research proposals nor does it make recommendations on funding specific projects.

FEMA Advisory Board Members are:

1. Dr. Wesley W. Posvar
   President
   University of Pittsburgh

2. Dr. Harold M. Agnew
   President
   GA Technologies, Inc.

3. Dr. William O. Baker
   Chairman (Retired)
   Bell Telephone
   Laboratories

4. Mr. Robert R. Everett
   President
   MITRE Corporation

5. Dr. Alexander H. Flax
   President Emeritus
   Institute for Defense
   Analyses

6. Dr. Jacques S. Gansler
   Vice President
   The Analytic Sciences
   Corporation

7. GEN Andrew J. Goodpaster
   (Retired), President
   Institute for Defense
   Analyses

8. Professor Samuel P. Huntington
   Eaton Professor of the Science
   of Government and Director,
   Center for International Affairs
   Harvard University

9. LTG Glenn A. Kent (Ret.)
   The RAND Corporation

10. MG Otto L. Nelson, Jr. (Ret.)
    Past Chairman
    Program Advisory Committee
    OEP/FPA

11. Honorable Paul H. Nitze
    Ambassador, U.S. Delegation
    to the Intermediate Range
    Theater Nuclear Forces
    Negotiations
    U.S. Arms Control and
    Disarmament Agency

12. Honorable Steuart L. Pittman
    Shaw, Pittman, Potts
    & Trowbridge

13. LTG Brent Scowcroft (Ret.)
    Consultant

14. Mr. Frank M. Staszesky
    Past President & CEO
    Boston Edison Company

15. Dr. Albert M. Stone
    Director of Advanced
    Research Programs
    Applied Physics
    Laboratory

16. Dr. Edward Teller
    Associate Director
    Emeritus
    Lawrence Livermore
    National Laboratory

17. Dr. Eugene P. Wigner
    Professor Emeritus
    Princeton University

18. Dr. Sidney G. Winter
    Prof. of Economics,
    Organization and
    Management
    School of Organization
    and Management
    Yale University

19. Vacant

20. Vacant

CIVIL DEFENSE AND NON-CIVIL DEFENSE RESEARCH

Question: Would you please identify the percentage distribution of Research in the Civil Defense and non-Civil Defense categories for each year from FY 80 through FY 84 and provide estimates for FY 85 and FY 86.

Answer: FEMA has data as follows for FY's 1982-1984, and estimates for FY 1985, regarding Agency obligations reported as research and development (dollars in millions):

	FY 82	FY 83	FY 84	FY 85
Civil Defense Research	$8.4 (46%)	$5.575 (36%)	$4.363 (38%)	$2.3 (42%)
Other Programs	$9.9 (54%)	$9.725 (64%)	$7.137 (62%)	$3.2 (58%)
TOTALS	$18.3	$15.3	$11.5	$5.5

Data are not available for FY's 1980 and 1981. (The FY 1980 budgets were prepared and submitted by FEMA's several predecessor agencies, prior to the formation of FEMA. The FY 1981 budget was the first one submitted by FEMA, but data from that Budget is not available. FEMA will make estimates for FY 1986, but it appears that this cannot be done by May 3, 1985. However, Civil Defense Research for FY 1986 will be at the level of $0.487 million, which it appears will be quite small as compared to research and development activities conducted under other programs.

APPROPRIATIONS BILL LANGUAGE

Question: Why is the Federal Emergency Management Agency recommending the words "and purchase" be added to the "Salaries and Expenses" language?

Answer: This change is necessary for the Federal Emergency Management Agency (FEMA) Special Facility (SF) to purchase passenger motor vehicles to ensure continued operation of the SF motor pool in support of the Continuity of Government mission. Purchase of passenger motor vehicles became a problem in Fiscal Year 1979. Prior to that time, purchase authority was available to the SF through the support functions of the Department of Defense, Corps of Engineers, and later from the General Services Administration (GSA), when FEMA, as the Federal Preparedness Agency, was part of GSA. At the SF, FEMA owns 84 passenger motor vehicles. These vehicles range widely in age and mileage. Some have been owned for many years and need replacing.

Question: Why is the word "passenger" being deleted?

Answer: This proposed deletion is an error. The word "passenger" should remain in the Salaries and Expenses appropriation language. The Federal Emergency Management Agency's main objective was to add "and purchase" to provide the necessary authority as stated above.

Question: How many motor vehicles does the Federal Emergency Management Agency anticipate purchasing?

Answer: The Federal Emergency Management Agency plans to replace no more than nine vehicles in Fiscal Year 1986.

Question: Are all of these motor vehicles replacing existing vehicles?

Answer: Yes. They all exceed the General Services Administration regulations and guidelines for vehicle replacement.

Question: For each of the existing vehicles being replaced, would you please indicate the age and mileage?

Vehicle	Age	Mileage
Station Wagon	9	208,267
Sedan	10	62,669
Panel Truck	11	25,000
Panel Truck	13	28,000
Sedan	14	36,300
Pick-up Truck	15	49,900
Pick-up Truck	11	38,220
Pick-up Truck	16	86,287
Pick-up Truck	16	41,468

MERIT PAY INCREASES

Question: How much money have you included in your FY 86 budget request in order to provide employees with Merit Pay as specified in the Civil Service Reform Act?

Answer: None. In FY 1985, FEMA was directed to absorb $1,129,000 for merit pay and merit pay bonuses. In FY 1986, merit pay and merit pay bonuses will again be absorbed.

SES BONUSES

Question: How much have you included in your budget for SES bonuses during FY 86?

Answer: $70,000 is requested for SES bonuses in FY 1986. This amount is the same as that requested and obligated in FY 1985.

CONSULTANTS AND EXPERTS

Question: How much do you expect to spend for consultants and experts in FY 85 and FY 86?

Answer: At the end of the second quarter of FY 1985, $167,768.57 has been spent on consultants and experts. We have no estimate for FY 1986.

Question: Would you please provide a listing of individuals and firms representing all the funds spent for consultants and experts in FY 84.

Answer: A list of consultants follows:

NAME

Agle, Charles
Arnstein, George E.
Blosser, Thomas E.
Borkowski, Susan
Bragdon, Clyde A., Jr.
Brogan, Lawrence N.
Chevalier, Raymond A.
Collester, J. Bryan
Corris, John J.
Girard, Charles M.
Hermann, Richard L.
Heyn, Robert N.
Hoeber, Francis P.
Hughes, Norman
Jones, Herbert C.
Kososki, John F.
Kraft, Crispin
Kronenberg, Philip S.
LaFleur, Joseph L.

NAME

Lawrence, Gary C.
Lindsay, William A., Jr.
Minton, Wilfred M.
Palumbo, Frank A.
Pharo, Gwen M.
Sames, Richard W.
Shea, Frances T.
Smallberg, Alex
Smith, Elizabeth H.
Sneed, Earl M.
Speck, Samuel W.
Spector, Sam
Steinbrugge, Karl V.
Toft, Robert J.
Underwood, James L.
Wamsley, Gary
Watt, Graham W.
Zordan, Thomas A.

The total amount expended for consultants and experts in FY 1984 was $828,707.18.

QUESTIONS SUBMITTED BY SENATOR LAXALT

NATIONAL EMERGENCY TRAINING CENTER

Question: What is the student capacity at the National Emergency Training Center at Emmitsburg, Maryland? Does this capacity reflect double or single occupancy?

Answer: Our student capacity at Emmitsburg generally runs between 330-370, depending on the types of courses offered and the number of adjunct faculty on campus. This is based on a policy of single occupancy. However, 121 rooms contain twin beds which can increase total occupancy to 504 in periods when classes are oversubscribed.

Question: What is the current student population at Maryland? Can you provide the Committee with a profile of that student population?

Answer: The average weekly attendance on the Emmitsburg campus is 339 students. The composition of those on campus, by program area, averaged out over a 45 week period is as follows:

National Fire Academy -- 53.3%
Emergency Management Institute -- 19.9%
Adjunct Faculty -- 9.9%
Special Groups -- 16.9%

Question: How does this capacity/population ratio compare to other federally sponsored training programs?

Answer: NETC's usage rates compare favorably with other federally owned training centers for professionals. We reviewed schools operated by the Justice and Defense Departments and by the Office of Personnel Management and found that our occupancy per class and weeks per year ratios of instruction were just higher than the average of the other institutions we surveyed.

Question: Has the student population grown in the past ten years? If so, to what can that growth be attributed?

Answer: The Emmitsburg Center has been in operation only five years. In that time, the student population has more than doubled. In 1984, over 8,000 students attended the NETC in Emmitsburg, Maryland. The growth can be attributed to the need for information being presented, the acceptance of the educational program by the emergency services community, the lack of availability of this type of information and training elsewhere, and the overall quality of the program offering.

Question: What is the projected student population i.e. demand for training in the next ten years?

Answer: Based upon the anticipated training needs, the programs offered by NETC can be more than doubled and still reach only a fraction of the individuals who need the training.

Question: What percentage of the Emmitsburg student population represents states west of the Mississippi? Is there any evidence, based upon your knowledge of the Emmitsburg population, to believe that the Maryland location of the current NETC campus prevents emergency personnel from Western states from taking full advantage of FEMA's training program?

Answer: Students attending the resident programs of NETC and utilizing the residential facilities from west of the Mississippi comprise half of the total population. If student travel stipends are eliminated, this will be very detrimental to students in the western states who could not easily drive to Emmitsburg, Maryland.

Question: What particular advantage will FEMA achieve by establishing a western campus for the NETC? More specifically, what does the facility in Carson City offer FEMA?

Answer: The Emmitsburg campus has reached its capacity and thousands of applications for emergency management training are now being returned. Cost of new construction, considering the impact of additional demands on the utility systems at the Emmitsburg campus, is prohibitive when compared to the cost of reconditioning a site already constructed. In addition, many students drive to Emmitsburg but this is not an option for students from the western part of the country. The Carson City site was selected because of its excellent location to serve western states, availability, presence of an academic campus and cost.

Question: What cost savings can FEMA realize by locating a NETC campus in Nevada? What cost savings can state and local emergency services experience?

Answer: Construction of additional facilities at Emmitsburg could cost $20,000,000 according to independent estimates, a figure several times greater than the estimated costs to renovate the Stewart site in Carson City, Nevada. Nevada is willing to lease the facility to FEMA for a long term at very low rates and has stabilized the facility, completely renovating the main classroom building and one dormitory. The campus is ready to house 80 students now and by January of 1986 will be capable of serving the entire planned capacity of 200-250 per week. Cost is not the only factor to be considered. If Congress would appropriate the money for new construction at Emmitsburg in FY 1986, the new facility would not be ready for use until 1988 or 1989. In the meantime, thousands of Emergency Managers would be unable to attend these vital classes and improve life and property saving skills. Immediate cost savings can be realized by emergency personnel in the western states in travel and greater availability on the job by less loss of travel time. The real savings to the communities is in property damage prevention and reduction and in improved capability to save lives and reduce injuries.

Question: How will training of attendees be improved by establishing a second campus in the West? Further, how will overall emergency preparedness be enhanced by establishing NETC-West?

Answer: The training facility at Emmitsburg is restricted by sleeping capacities and by classroom availability. Many weeks during the year, students are taught in less than optimal environments. The Carson City facility offers excellent classroom space. The major training improvement will be in increased availability of classes offering more attendance options for students and in the increased number of students being trained. Overall, emergency preparedness will be enhanced by providing emergency preparedness training to additional students.

Question: Has the State of Nevada made a financial commitment to the establishment of NETC-West?

Answer: The State of Nevada has made a major commitment to assure that FEMA can successfully use the Stewart site as its western NETC campus. Particularly, the State has spent well over half a million dollars of funds available to the State to renovate major buildings at the site.

Question: Will NETC-West offer the same range of courses as is offered at Emmitsburg?

Answer: NETC-West will generally offer the same courses as Emmitsburg with the exception that several senior management level courses will only be taught at Emmitsburg. At NETC-West, EMI will offer selected courses in high demand subject areas, particularly those which support State and local emergency management offices through the Train-the-Trainer concept and various technical specialities. NFA will offer courses in their high demand technical series. New courses will be developed and pilot tested at Emmitsburg before being offered at Carson City.

Question: When does FEMA anticipate offering its first course at the Carson City facility?

Answer: FEMA plans to offer its first course at Carson City in January of 1986.

Questions Submitted by Senator D'Amato

REGIONAL CONSOLIDATION

Question: Could you brief me on interaction FEMA has had with OMB regarding regional consolidation?

Answer: Senior officials of FEMA and OMB have met on several occasions to discuss the Administration's regional consolidation initiative. In addition, OMB has briefed senior FEMA officials on the current status of that initiative government-wide.

Question: For what reasons would you consider closing FEMA or reducing staff in the largest city in the nation--especially a city with the largest transportation network in the country, the nation's financial and media capital, and numerous hazardous waste sites, nearby nuclear plants, and other situations which it is clearly in the national interest to closely monitor?

Answer: As the Director stated on April 17, 1985, in hearings before the House Appropriations Committee, Subcommittee on HUD-Independent Agencies, no decision has been reached on FEMA's response to the Administration's regional consolidation initiative. FEMA has been working on its response since December 1984, employing the following two immutable guidelines established by the Director:

1. The regional consolidation issue must be addressed in a way which has the least impact on the Agency's employees.

2. The guidelines established by the initiative itself must be met and they must be met in a way which permits FEMA to fulfill those functions the Congress has entrusted to FEMA.

The concerns raised in the question are undeniably valid and will be taken into account in the decisionmaking process as outlined above.

Question: It is my understanding New York administers the second largest emergency management budget in the country. The New York region obligated 17% of disaster funds, and has 23% of the superfund waste sites. How would the Agency handle this workload without the regional office?

Answer: Workload impact is one of several areas being analyzed by FEMA in its effort to determine the best approach to meeting the requirements set forth in the regional consolidation initiative.

Question: Is it true that the New York regional office has the best equal opportunity profile in FEMA, where 61% of the staff are women or minorities?

Answer: Forty-five percent (45%) of the workforce in the New York regional office is comprised of females and minorities.

Question: It is my understanding that FEMA is a decentralized agency with programs administered at the field level. Why then, in consolidating and cutting the workforce, are all reorganization proposals aimed at the regions as opposed to the national office, which employs 60% of FEMA employees and has significantly more high-grade positions than the regional offices?

Answer: The potential restructuring of FEMA's regions is part of the Administration's government-wide regional consolidation initiative which FEMA and other Federal entities were directed to address in the FY 86 Budget formulation process. Because the regions were specifically highlighted, there is the appearance that headquarters organizations are excluded from similar reorganizations. In fact, FEMA's FY 86 Budget Request contains programmatic cuts which will require us to also examine the headquarters structure to ensure our limited resources are used as economically and efficiently as possible.

The net workforce reduction cited in the FY 86 Budget Request is 178 Full-Time Equivalent (FTE) workyears below the FY 85 level. Although FEMA's budget is program-based rather than location or organization-based, we estimate the net reduction to be divided between headquarters and regions as follows:

NET FTE REDUCTION IN FY 1986 BY PROGRAM AREA

PROGRAM AREA	HEADQUARTERS	REGIONS	TOTAL
Civil Defense	+1	-100	-99
REP	-1	-2	-3
Government Preparedness	-33	0	-33
Resources Preparedness	-25	0	-25
Training & Fire Programs	-2	0	-2
Management & Administration	-10	0	-10
Food & Shelter	-6	0	-6
TOTAL	-76	-102	-178

Fifty of the 100 workyear reduction shown for the regions in Civil Defense is for a seasonal program (Shelter Survey) staffed on a temporary basis and results in no reduction in the region's permanent, operational workforce. When the remaining reductions are applied across the Agency, the percent reduction in the Agency's permanent, operational workforce in FY 86 is approximately: Headquarters (59%); Regions (41%).

Question: What events caused you to consider changing the two original proposals which included maintaining a regional office in New York?

Answer: There have been many proposals addressing how FEMA will comply with the Administration's regional consolidation initiative, but no decision has been reached on any FEMA regional configuration.

Question: What are the principal causes for the financial shortfalls attributed to the regions?

Answer: We are not aware of any financial shortfalls attributable to the regions. FEMA's FY 86 Budget reductions are a result of many factors, including compliance with the Deficit Reduction Act; compliance with OMB Circular A-76; compliance with the Administration's management improvement initiatives; the need to fund the January 1985 pay raise; and the reduction in the number of employees in the GS-11 - GM-15 grade range.

Question: What analysis has been done regarding the impact on program management in the New York region if there is a consolidation of these offices?

Answer: The impact on program management in all of FEMA's regions is one of several critical factors being considered in our effort to address the Administration's regional consolidation initiative.

TELECOMMUNICATIONS AND WARNING SYSTEMS

Question: I am also concerned about FEMA's five-year plan for Telecommunications and Warning (T&W) enhancement. We know that this system is badly in need of updating. Yet the proposed FY 1986 allocation for this function is $19.7 million, as opposed to $34.4 million in FY 1985. How is the FY 1986 T&W enhancement budget distributed within FEMA?

Answer: As a point of clarification, the proposed FY 1986 allocation of $19.7 million for this function includes $3.8 million for Salaries and Expenses. The $15.9 million allocated for T&W is described below:

	Program/Activity	1986 Request ($000)
1.	National Warning System (NAWAS)	$ 6,124
	- Leased Communication Services	6,124
2.	Washington Area Warning System (WAWAS)	$ 1,085
	- Leased Communication Services	50
	- Tone Encoded Radio Activation System	40
	- Operations and Maintenance	990
3.	FEMA National Teletype System (FNATS)	$ 1,452
	- Leased Communication Services	1,452
4.	FEMA National Voice System (FNAVS)	$ 497
	- Leased Communication Services	497
5.	FEMA National Radio System (FNARS)	$ 1,785
	- Leased Communication Services	18
	- Operations and Maintenance	482
	- High Frequency (HF) Equipment Upgrade	1,285
6.	Telecommunications Support Services	$ 2,592
	- Leased Communication Services	1,580
	- Headquarters PABX Equipment	750
	- Leased Newswire Services	38
	- Leased Pager Services	119
	- Leased Cellular Telephone Services	30
	- Miscellaneous Circuits, Monitors, and Equipment	75
7.	Civil Preparedness Support Detachments (CPSD)	$ 880
	- US Army Reserve Civil Prep. Support Detachments	880
8.	Decision Information Distribution System (DIDS)	$ 660
	- Leased Communication Services	660
9.	DOD Reimbursable Support	$ 825
	- Logistical, Procurement, and Maintenance Support	825
	TOTAL FY 1986	$15,900

TELECOMMUNICATIONS AND WARNING SYSTEMS

Question: What T&W enhancement will be provided by each of these functions in FY 1986?

Answer: Enhancements planned for FY 1986 include the completion of the WAWAS Tone Encoded VHF-FM Radio Activation System and the FNARS HF equipment upgrade in two regions and two states.

Question: What was done in FY 1984 and FY 1985?

Answer: The FY 1984 and FY 1985 enhancements:

National Warning System (NAWAS)

- 18 terminals were added to the system in 1984.
- Also during 1984, a prototype low profile warning antenna for use in the low frequency system was acquired and field-tested.
- Enhancements planned for 1985 include a phased upgrading of existing terrestrial systems into a more survivable infrastructure using Meteor Burst (MB) communications, and the installation of additional NAWAS terminals for counterforce areas. This consists of Phase I of the acquisition of the LF transportable radio system and development of State MB transceivers.

Washington Area Warning System (WAWAS)

- Phase I of the acquisition of the Tone Encoded VHF-FM Radio Activation System was begun in 1984 with Phase II being done in 1985.

FEMA National Teletype System (FNATS)

- There were no enhancements to the FNATS during 1984. All of the funds were used for the continued operation and maintenance of the systems.
- Phase I of the FNATS modernization and secure operations program with installation of the secure regional mini-computer switches at five regional facilities was begun during 1985.

FEMA National Voice System (FNAVS)

- There were no enhancements to the FNAVS program during 1984 and 1985. Funds provided for the continued operation and maintenance of the system.

FEMA National Radio System (FNARS)

- Accomplished during 1984 was Phase I of the communication/electronic test equipment upgrade.

TELECOMMUNICATIONS AND WARNING SYSTEMS

- Additionally, a procurement was initiated for very high frequency (VHF) portable/mobile radios for two FEMA Regions.

Enhancements Planned for 1985 Included:

- Replacement of fixed plant HF equipment to four FEMA Regions, the Special Facility and the possessions and territories not included in the 1984 upgrade.
- Replacement of fixed plant, compatible solid-state HF equipment in 14 additional states in four Regions not included in the 1984 upgrade.
- Procurement of modern, state-of-the-art terminals, modems and ancillary equipment in concert with the fixed HF upgrade, to replace obsolete FNARS teletype machines in all of the Regions, States, Territories, and possessions with equipment that is compatible with the Direction, Control and Warning Communications Systems.
- Phase II replacement of obsolete communications electronics test equipment started in 1984.
- Replacement of the HF portable/mobile equipment used for emergency radio communications.
- Acquisition of VHF portable/mobile units for short range communications to the portable HF stations for relay to either Regional Facilities or FEMA national.

Telecommunications Support Services

- 1984 enhancements included:
  - Replacement of antiquated facsimile equipment with a digital, high speed (sub minute, per page) FEMA national facsimile network.
  - Phase I of the Headquarters EPABX installation and upgrading of existing EPABX system in four Regions.
  - Installation of DCT 9000 terminal at Headquarters which provides access.
- Enhancements planned for 1985 included:
  - Continued expansion of switching systems at FEMA Headquarters and acquisitions of EPABX switching systems for those six Regions not included in Phase I.

TELECOMMUNICATIONS AND WARNING SYSTEMS

- Acquisition of a rotatable directional antenna for HF at FEMA Headquarters.

U.S. Army Civil Preparedness Support Detachments (CPSD)

- There were no enhancements to the CPSD program during 1984. All of the funds were used for continued operation of the program in eight FEMA Regions.

- Two additional units planned for 1985 are being held in abeyance pending Congressional approval of realignment of federal regional boundaries.

Decision Information Distribution System (DIDS)

- There were no enhancements to the DIDS program during 1984. All of the funds were used for continued operation and maintenance of the program.

Enhancements planned for 1985 included:

- A feasibility study for use of the Federal Regional Center, Olney, Maryland, as a primary control station in the LF communications program.

- Providing receivers to key FEMA officials in case of an emergency.

- Establishing a prototype test-bed of receivers throughout Maryland to examine different code configurations of the system.

DoD Reimbursable Support

- There were no enhancements in 1984 and 1985. Funds provided for the continued logistical, procurement, and maintenance support of FEMA activities by DOD agencies.

Question: Considering the age, condition, utilization, and maintenance costs of existing T&W equipments, how long will it take to modernize the system at the expenditure rate in your FY 1986 request?

Answer: With the exception of the WAWAS and FNARS upgrades previously mentioned, the planned expenditure rate does not allow for any modernization of existing T&W equipment. The FY 1986 budget request, in actuality, considering inflation and potential rate increases, allows only for continued operations and maintenance of the different systems. It is estimated that it would take 1-3 additional years at an increased level of funding from the time of authorization of funds to complete the modernization programs begun in 1984 and

1985. For example, in FY 1985 dollars, we estimate that it will take approximately $12 million to complete the FNARS modernization program; $5 million to complete the FNATS; $22 million to complete the Meteor Burst/NAWAS upgrade; and approximately $2.5 million to complete the Digital EPABX Program.

Question: What is your long-range plan for T&W enhancement?

Answer: Our long-range plan for T&W enhancement, always contingent upon availability of funds, technological development and operational requirements, is described below:

National Warning System (NAWAS)

- Modernize the existing 2600 warning point system and develop LF and MB technologies to provide more survivability.
- Integrate and modernize existing Emergency Broadcast System capabilities in conjunction with NAWAS upgrade.

Washington Area Warning System (WAWAS)

- Enhancements to improve reliability and survivability are scheduled for completion in 1986.

FEMA National Teletype System (FNATS)

- Phase II of the system modernization will extend the modern secure message capability to the five remaining regions, the 50 State Emergency Operating Centers, the District of Columbia, Virgin Islands, Puerto Rico, and four Canadian provinces.

FEMA National Voice System (FNAVS)

- Upgrading of the system with secure voice capability to FEMA and State locations is planned for completion in FY 1986.

FEMA National Radio System (FNARS)

- Complete the HF modernization effort, started in FY 1984 and 1985, in four Regions, 26 States and the Territories and possessions.
- Replace obsolete teletype machines in the Regions, States, Territories, and possessions.
- Complete VHF portable/mobile modernization commenced in FY 1983.
- Install modern HF all band antennas at FEMA Regions, States, Territories and possessions.

TELECOMMUNICATIONS AND WARNING SYSTEMS

Telecommunications Support Services

- Complete EPABX switching system acquisitions at the Regions.
- Acquire a nationwide digital display paging system.
- Introduce satellite distributed video teleconferencing of the NETC.
- Install secure video teleconferencing systems at FEMA Headquarters to interface with selected FEMA facilities.
- Acquire cellular telephones at the Regions.

U.S. Army Civil Preparedness Support Detachments (CPSD)

- FEMA is currently reviewing mission requirements to determine if the size and/or composition of the units needs to be changed.

Decision Information Distribution System (DIDS)

- No modernization of the system is planned at this time.

DOD Reimbursable Support

- No increase in support is planned at this time.

QUESTIONS SUBMITTED BY SENATOR PROXMIRE

NETC WEST

Question: I noticed in your statement that you are requesting $3,200,000 to build and operate a Western Training Facility for emergency planners. With all the cuts and belt tightening you're taking in other parts of the FEMA budget, why in FY 1986 are you establishing a new training facility?

Answer: We are not building a new training facility in FY 1986. The FY 1985 budget approved by Congress contained $3,165,000 to renovate and begin operations of a NETC Western Facility at Carson City, Nevada, formerly occupied as an Indian training school. This program is well underway. The FY 1986 budget contains the same funding level of $3,165,000 to continue renovations and operate the facility.

EMERGENCY FOOD AND SHELTER PROGRAM

Question: I notice that in the FY86 budget you completely halt the Emergency Food and Shelter Program, which will have distributed $210 million to the homeless and needy across the country by the end of this year. Anyone who turns on his TV set and watches the evening news gets the clear impression that the problem of people going homeless and hungry in this country has reached emergency proportions. Is FEMA terminating this program because it doesn't feel we have a crisis with homeless and hungry in this country? Is it no longer an emergency situation as far as FEMA is concerned?

Answer: The Administration has never requested this particular program as its proposed approach to dealing with the problem of homelessness.

The Administration believes the problem is better dealt with through existing comprehensive social service agencies and programs and through dealing with the several root causes of homelessness.

QUESTIONS SUBMITTED BY SENATOR LAUTENBERG

Purchase of Property Program

Question: A year ago last month, your Agency submitted a report estimating the annual funding requirements for your Purchase of Property or "buy-out" program at $15 million. Your FY 86 budget recommends $4.778 million, the same as last year. Where are the New Jersey applications ranked?

Answer: Pequannock, New Jersey was the second highest ranked community applying for 1362 funding in 1985. It was the only New Jersey community requesting such funds in 1984 or 1985.

Question: How far down the list did you get in FY 84 before running out of money? How far down the list do you expect to get this fiscal year?

Answer: In 1984, 171 communities applied for the purchase of property buy-out for 633 structures, of which FEMA agreed to purchase 462 structures in 21 communities. For 1985, funds have been set aside to purchase 116 structures in 7 communities, out of applications covering 136 structures in 12 communities.

Question: Are eligible communities that do not receive funding this fiscal year eligible for funding in FY 86?

Answer: A community's application will be carried over to the subsequent fiscal year if the community informs the FEMA Regional Office of its continued interest.

QUESTIONS SUBMITTED BY SENATOR DECONCINI

BUDGET FOR FY 86

Question: FEMA's budget proposal for civil defense related programs reflects a significant decrease from the 1985 appropriation. Explanations for this action have been linked to the need to reduce the Federal deficit. I am fully aware of the need for budget reductions. At the same time, I am very concerned that essential emergency management programs are being crippled by sizable Federal reductions in programs that provide very necessary services to State and local communities in times of disasters.

What assessment has FEMA made on the impact a 34 percent budget reduction in civil defense related programs will have on the capabilities at State and local levels to save lives in emergencies?

Answer: An underlying assumption in the Civil Defense Act of 1950, as amended, is that the programs prescribed for civil defense allow local and State jurisdictions to be better prepared for emergency situations. Further, it is assumed that preparedness will minimize loss of life and property in disaster situations.

FEMA has provided for the record details of what the potential impact of the budget reductions will be on individual programs, both in terms of reduced staffing and outputs. Translating those figures into an impact on loss of life and property belong in the sphere of conjecture, and any response beyond that already provided would be inappropriate.

FY 1986 Civil Defense Budget

Question: As I understand it, your 1986 budget includes $29,807,000 for salaries and expenses (S&E) and $89,318,000 for emergency management planning and assistance (EMPA) for a total of $119,125,000 for civil defense. This relates to your 1985 current estimate as a 9 percent reduction in S&E and a 38 percent reduction in EMPA. One might translate this to mean that you are retaining about 91 percent of your people while losing 38 percent of your actual working funds. With a 38 percent reduction in funding for EMPA, why is there not a corresponding reduction in salaries and expenses?

Answer: The data is correct, however, its thrust is not to retain FEMA staff at the expense of reducing the working funds of State and local governments.

The overall rationale for the allocation of the FY 1986 Civil Defense funds is set forth in the Director's statement, it is, "to make every effort in 1986 to keep experienced employees at the Federal, State, and local levels, on the basis that these skilled people are the most fundamental assets of the civil defense program."

The various program elements in the civil defense budget provide funding for salaries and expenses (S&E) for the professional emergency management organizations at the Federal, State, and local levels of government. This organizational base provides the planning, management, administrative and operational resources upon which all other development initiatives are dependent. These other initiatives include Research and Systems Development, State and Local Direction, Control and Warning Systems, Radiological Instrumentation, Training and Education, Federal Telecommunications and Warning, and protection of Industrial Facilities.

By comparison to the FY 1985 Civil Defense Budget, the overall FEMA Civil Defense Budget was reduced by 34 percent (from $181 million to $119.125 million). It was and is the judgement of the FEMA management that the highest priority for funding be for the Federal, State, and local organizations to maintain as much as possible the professional capabilities and technical emergency management expertise essential to emergency planning, management, administration, operations, and response. Accordingly, the programs in the funding categories in support of State and local staff were reduced by approximately 17 percent of the FY 1985 Civil Defense Budget.

The significant impact, relative to the above stated reduction, is that what had been 100 percent FEMA funded support for State level specialists, such as emergency management planners, radiological planners and maintenance shop personnel, training officers and engineers, was changed to an approach that offered a 50 percent match to State offices of emergency management in support of the specialists. This decision was made in the hope that States could absorb the additional cost for these previously 100 percent Federally funded specialists, affording States the ability to retain these specialists.

By comparison, Federal, State, and local initiatives primarily relating to training, facilities, equipment, research and systems development were reduced by 59 percent, to an overall funding level of approximately $28.6 million in FY 1986. Of this, $28.6 million, $24.428 million or 85 percent is for Training and Education and Federal Telecommunications and Warning, both of which have a high priority because of their significance to Federal, State, and local capability building.

FEMA believes that the priorities reflected in the FY 1986 request at $119.125 million reflect the best allocation at that level. FEMA feels that it would be inappropriate to invest more in hardware systems at the cost of more severe reductions in the trained staff who are to be supported by or make use of the systems. Should additional funds become available in the future, hardware systems can be procured with shorter lead time than that required to rebuild experienced staffs, because staff effectiveness is a function of years of expertise in the program.

In summary, our policy is to spread the reductions to protect to the maximum extent practical the partnership interdependency of Federal, State, and local level emergency management agencies, with primary concern for organizational stability and the retention of experienced emergency management personnel.

Question: FEMA proposes to eliminate four regional offices. Please provide details on which offices will be eliminated and state jurisdictions of the remaining offices. Also provide a listing of the number of people employed at each regional office and the Washington office from 1981-1985.

Answer: As the Director stated on April 17, 1985, in hearings before the House Appropriations Committee, Subcommittee on HUD-Independent Agencies, no decision has been reached on FEMA's response to the Administration's regional consolidation initiative. FEMA has been working on its response since December 1984, employing the following two immutable guidelines established by the Director:

1. The regional consolidation issue must be addressed in a way which has the least impact on the Agency's employees.

2. The guidelines established by the initiative itself must be met and they must be met in a way which permits FEMA to fulfill those functions the Congress has entrusted to FEMA.

The specific regional configuration is one of the critical factors under review as outlined above.

The following is a listing of the employment levels at headquarters (500 C Street, S.W., Washington, D.C.), field locations, and the regions during the period FY 1981-1985 (to date).

FEDERAL EMERGENCY MANAGEMENT AGENCY
Employment by Location*

FY	WASH, DC HQ BLDG	FIELD LOCATIONS	REGIONS I	II	III	IV	V	VI	VII	VIII	IX	X	TOTAL	TOTAL
FY 81	1,063	630	63	55	71	90	95	77	57	58	61	54	681	2,374
FY 82	827	757	56	47	68	90	93	75	59	50	54	51	643	2,227
FY 83	998	786	63	60	76	102	93	84	69	66	64	61	738	2,522
FY 84	1,116	866	73	71	83	97	106	92	70	73	78	67	810	2,792
FY 85 (As of 4/26/85)	1,035	828	69	60	77	93	92	90	54	77	75	62	749	2,612

* Figures include all employees except Disaster Assistance and Superfund employees

RADIOLOGICAL PROTECTION PLANNING AND DEVELOPMENT

Question: FEMA's budget justification for radiological protection, places emphasis on developing radiological protection annexes to State and local Emergency Operations Plans (EOP's) and on exercising the plans. Would you please provide more details on radiological protection annexes and the extent of this emphasis?

Answer: The development, maintenance and exercising of Radiological Protection Annexes to state and local jurisdiction's EOP's provide for the protection of the population and the jurisdiction's resources from the radiological hazards that have been determined through a hazard analysis to be a radiological threat to the jurisdiction.

The Radiological Protection Annex describes the authorities, organizational assignment of responsibilities, purpose, concept of operations, administration and logistics, direction and control, and training, that are an integral part of a jurisdictions' radiological protection system. It describes how the jurisdiction would respond to a radiological emergency. In addition, each annex contains hazard-specific appendicies, i.e., transportation accidents, fixed nuclear facilities, industrial accidents, hospital accidents, nuclear terrorism, and accidental or intentional launches of a nuclear weapon.

The radiological protection annex is a required part of every jurisdiction's EOP. It must be in concert with State emergency planning and likewise State planning must be supportive of local planning efforts.

At this time, most local jurisdictions do not have a full time Radiological Officer. Therefore, it is essential that each State have a full time Radiological Officer who can assist local jurisdictions in the development, maintenance and exercising of radiological protection annexes to their EOP.

Question: FEMA proposes to support radiological defense officers on a matching fund rather than a full funding basis. What steps will FEMA take to ensure that local communities will be able to respond to a radiological emergency such as offsite response to a nuclear power facility disaster or local response to an accident in the transportation of radioactive materials?

Answer: The matching funding proposed for the Radiological Protection Planning Program should have limited impacts on the Radiological Emergency Preparedness Program (which is the planning effort to assure the adequacy of State and local offsite preparedness around nuclear power facilities). The Radiological Emergency Preparedness Program is proposed for funding consistent with FY 1985 for FY 1986.

It is FEMA's hope that the Radiological Protection Planning Program will not be adversely affected. FEMA is proposing to provide States sufficient flexibility in funding arrangements in order for them to address areas which they feel are priorities at the State or local level.

Radiological Emergency Preparedness

Question: Please explain the relationship between FEMA and the Nuclear Regulatory Commission in the review of emergency plans of nuclear power facilities for off-site emergency preparedness?

Answer: FEMA provides findings based on its evaluation of the adequacy of State and local government plans to the NRC for the Commission's use in licensing commercial nuclear power plants. These evaluations are made on the basis of the criteria in the NRC/FEMA guidance document, NUREG-0654/FEMA-REP-1. Depending upon the particular needs of the NRC, these findings are based on FEMA's evaluation of plans alone or on the evaluation of plans and exercises. The NRC evaluates the on-site emergency preparedness of its licensees and makes the assessment of overall preparedness as part of its licensing process. The basis for the respective roles and responsibilities of the NRC and FEMA is established in the NRC/FEMA Memorandum of Understanding a revision of which was published in the Federal Register on April 18, 1985 (50 FR 15485).

Question: What is the extent of the responsibility of State and local officials to the adequacy of and the capability to implement off-site emergency plans at nuclear power facilities?

Answer: It is necessary for State and local governments that are located within the emergency planning zones of commercial nuclear power plants to both develop and demonstrate through exercises the capability to implement their radiological emergency response plans in order to meet NRC licensing requirements. Under FEMA's rule, 44 CFR 350, the State submits site-specific State and local government plans and based on these plans conducts an exercise to test them. FEMA evaluates the adequacy of State and local governments radiological emergency plans and preparedness. The extent of State and local government responsibility for their planning and preparedness effort is set forth in the NRC/FEMA guidance document, NUREG-0654/FEMA-REP.

The basic criterion used by FEMA and the NRC in assessing the adequacy of State and local government radiological emergency planning and preparedness is whether or not appropriate protection measures can be taken off-site to protect public health and safety in the event of a radiological emergency. When the State formally submits plans for FEMA's review and approval, the Governor or his designee is required to include a statement that the plans are adequate to protect the public health and safety of the people living within the emergency planning zones (roughly 10 and 50 miles) of the nuclear power facility involved.

BUDGET FOR FY 1986

Question: Please provide information on how much funding the State of Arizona would receive under your 1986 budget proposal and compare that to the 1985 funding level in civil defense related programs.

Answer: In the majority of our programs, funding for a given State is negotiated each year based on a variety of factors. This negotiation process is just beginning for FY 1986, so it is impossible to provide exact figures on Arizona's FY 1986 funding. Estimates were obtained by applying the appropriate percentage reduction in the program element to Arizona's FY 1985 allocation. These rough estimates indicate that Arizona could receive a 28 percent reduction in funding from their 1985 level. In addition, other services such as State and local access to military personnel through the Individual Mobilization Augmentee (IMA) program will also be reduced.

Arizona

		FY 1984	FY 1985	ESTIMATED FY 1986
a.	Emergency Management Assistance	$ 767,437	$ 834,131	$ 726,171
b.	Population Protection	238,193	256,236	128,000
c.	Facility Survey	74,980	90,965	45,000
d.	Direction, Control, Warning	36,100	-0-	-0-
e.	Radiological Defense	130,536	131,286	65,500
f.	Emergency Management Training	116,000	120,000	60,000
Civil Defense Total		$1,363,246	$1,432,618	$1,025,271

TELECOMMUNICATIONS AND WARNING SYSTEMS

Question: The 1985 hearing report targeted telecommunications and warning programs as the most time critical and the highest priority in the civil defense program. Please explain the progress that has been accomplished in upgrading these systems and why you are not proposing to continue with this in 1986.

Answer: The accomplishments in upgrading the Telecommunications and Warning Systems during 1985 are as described below:

(1) National Warning System (NAWAS)

Enhancements planned for 1985 include a phased upgrading of existing terrestrial systems into a more survivable infrastructure using Meteor Burst (MB) communications, and the installation of additional NAWAS terminals for counterforce areas. Phase I is the development of State MB transceivers.

(2) FEMA National Radio System (FNARS)

- Replacement of fixed plant HF equipment to four FEMA Regions, the Special Facility and the possessions and territories not included in the 1984 upgrade.

- Replacement of fixed plant, compatible solid-state HF equipment in 14 additional states in four Regions not included in the 1984 upgrade.

- Procurement of modern, state-of-the-art terminals, modems and ancillary equipment in concert with the fixed HF upgrade, to replace obsolete FNARS teletype machines in all of the Regions, States, Territories, and possessions with equipment that is compatible with the Direction, Control and Warning Communications Systems.

- Phase II replacement of obsolete communications electronics test equipment started in 1984.

- Replacement of the HF portable/mobile equipment used for emergency radio communications.

- Acquisition of VHF portable/mobile units for short range communications to the portable HF stations for relay to either Regional Facilities or FEMA national.

(3) Telecommunications Support Services

- Continued expansion of switching systems at FEMA Headquarters and acquisitions of EPABX switching systems for those six Regions not included in Phase I.

- Acquisition of a rotatable directional antenna for HF at FEMA Headquarters.

(4) FEMA National Teletype System (FNATS)

- Phase I of the FNATS modernization and secure operations program with installation of the secure regional mini-computer switches at five regional facilities was begun during 1985.

(5) Washington Area Warning System (WAWAS)

- Phase I of the acquisition of the Tone Encoded VHF-FM Radio Activation System was begun in 1984 with Phase II being done in 1985.

(6) FEMA National Voice System (FNAVS)

- During 1985 funds provided for the continued operation and maintenance of the system.

(7) U.S. Army Civil Preparedness Support Detachments (CPSD)

- Two additional units planned for 1985 are being held in abeyance pending Congressional approval of realignment of federal regional boundaries.

(8) Decision Information Distribution System (DIDS)

- Providing receivers to key FEMA officials in case of an emergency.
- Establish a prototype test-bed of receivers throughout Maryland to examine different code configurations of the system.

(9) DoD Reimbursable Support

- No increase in support is planned at this time.

Question: Why are you not proposing to continue with this in 1986?

Answer: The $15.9 million requested for FY 86 Telecommunications and Warning program requirements will provide for basic systems support and minimal enhancements. This budget level is a prorated share of the overall Civil Defense budget and is in line with the Administration's efforts to reduce the national deficit. This level of funding does not permit completion of the system enhancements and upgrades initially approved and implemented in the FY 1984 and FY 1985 budget.

FY 1986 Civil Defense Budget

Question: FEMA's budget proposal includes no funding for state and local emergency operating centers. Would you please provide a summary of key emergency operating centers throughout the country and describe their present state of readiness as it pertains to staffing, radios, telephone lines, degree of maintenance and emergency generators. Also, please estimate the cost these centers will have to absorb as a result of 1986 budget reductions.

Answer: Based on FEMA minimum standards for Emergency Operating Centers (EOC's) operations, there are approximately 200 local EOC's that have an acceptable level of capability. The remainder of the EOC type facilities in the nation vary in operational capability from deficiencies that cost little or nothing to bring up to minimum standards, to facilities that need very costly upgrading to be operationally sound.

The following chart shows the national financial shortfalls reflected in the State EOC Development Plans. These total requirements represent only those reported in the plans:

Year	Total Requirements ($000)			Total Obligations ($000)	Total Shortfalls ($000)
	Ph I	Ph II	Total		
1984	$3,420	$32,079	$35,499	$9,207	$26,292
1985	4,171	54,354	58,525	8,632	49,893
1986	2,554	42,121	44,675	-0-	44,675

There is no way to presently measure the extent State and local communities will develop EOC's in 1986 without Federal financial assistance.

POPULATION PROTECTION PLANNERS

Question: FEMA now fully supports over 200 State-level professional planners and proposes a matching fund basis in 1986. Please provide a breakdown by State on the number of professional planners employed and estimate the cost each State will have to absorb under a matching fund basis.

Answer: Attrition has caused the number of planners to decline to an actual FY 85 figure of 196. The attached Regional-State Worksheet reflects the proposed allocation of planners by State for FY 1986 and the cost each State would have to absorb under a matching fund program.

Thirty-five States have indicated they will layoff planners, 3 States will reassign them, and 10 States will reduce or eliminate the program. Only 4 States, with a total of 17 planners, have indicated they will seek additional State funds to continue the program at FY 1985 levels.

REGIONAL-STATE WORKSHEET

AREA	FY 86 Allocation of Planners	Cost (In Thousands) 50/50 Match	
TOTAL	196	4,200	
REGION I	19	385	
Connecticut	3	61	
Maine	3	60	
Massachusetts	6	118	
New Hampshire	2	41	
Rhode Island	2	45	
Vermont	3	60	
REGION II	15	339	
New Jersey	4	81	
New York	8	236	
Puerto Rico			
Virgin Islands	1	22	
REGION III	16	350	
Delaware	1	23	
Dist. of Columbia	1	21	
Maryland	2	35	
Pennsylvania	4	110	
Virginia	5	120	
West Virginia	3	41	
REGION IV	35	695	
Alabama	4	87	
Florida	5	123	
Georgia	5	103	
Kentucky	3	55	
Mississippi	4	67	
North Carolina	6	115	
South Carolina	5	90	
Tennessee	3	55	
Canal Zone			
REGION V	24	475	
Illinois	3	49	
Indiana	4	74	
Michigan	6	148	
Minnesota	3	58	
Ohio	6	101	
Wisconsin	2	45	
REGION VI	26	488	
Arkansas	6	76	
Louisiana	5	87	
New Mexico	2	42	
Oklahoma	3	68	
Texas	10	215	
REGION VII	17	343	
Iowa	2	40	
Kansas	4	81	
Missouri	7	149	
Nebraska	4	73	
REGION VIII	18	390	
Colorado	6	139	
Montana	2	41	
North Dakota	3	60	
South Dakota	2	38	
Utah	3	66	
Wyoming	2	46	
REGION IX	21	555	
Arizona	6	121	
California	10	320	
Hawaii	2	50	
Nevada	2	42	
American Samoa			
Guam			
Northern Mariana Islands	1	22	
Trust Territory			
REGION X	7	180	
Alaska	1	45	
Idaho	2	39	
Oregon	2	41	
Washington	2	55	

Questions Submitted by Senator Chiles

FIRE STIPENDS

Question: Considerable concern has been expressed over the reduction of $1,200,000 for the National Fire Academy which eliminates all funding currently being used to pay the travel for students to attend courses at the National Fire Academy. Many of the participants in this program are volunteers and do not have the resources to pay for travel to the academy. It appears that this budget cut could significantly lower the amount of training received by local fire personnel. Failure to learn advanced techniques could cost local communities much more in the way of serious fire damage. Does FEMA have an estimate of the effect on attendance at the academy because of lack of funding for travel expenses? How was this estimate derived? At what level of attendance would the academy no longer be a cost beneficial activity?

Answer: We have no estimate of the effect on attendance at the Academy because of lack of funding for travel expense at this time. It is expected that there will be some impact. However, we have no historical data or experience to use in the development of such an estimate.

We have not undertaken a cost benefit analysis of operating the Academy without funding for travel expenses. With a reduced student level, we would reduce the number of courses and course offerings based on demand.

Flood Insurance Premium Increase

Question: The Budget proposed that the Flood Insurance Program be made self-supporting. Costs of certain aspects of the flood program, such as flood plain management, are proposed to be funded as part of the National Flood Insurance Program. These activities were previously funded separately. As a result of these changes, insurance premiums are expected to increase by 14% in FY 1986. What is the dollar cost of this increase to the average insurance holder? Since many other changes proposed in the budget are being phased in over a time period, why can we not phase in this increase in premiums over a 2 or 3-year period? What would be the budget impact of a phased-in approach?

Answer: The goal of a self-supporting flood insurance program was established in 1981. Since that time, the coverage and rate changes implemented in support of this goal have resulted in over $500 million in savings to the taxpayer. The rate revision planned for 1986 is another step in this direction. Even after this revision is effective, a 30-40% subsidy will still exist for flood insurance policies. Therefore, this increase would be necessary even without the addition of flood plain management and administrative costs to the National Flood Insurance Fund.

The planned rate revision will raise the average premium by only $27, and 90% of all policyholders will experience increases of less than $50. As pointed out earlier, this increase is but another step toward a self-supporting NFIP, and therefore does represent a phased-in approach in achieving that goal. Lengthening the phase-in of the planned rate revision would mean that the self-supporting goal would not be achievable by 1988.

ENVIRONMENTAL PROTECTION AGENCY

STATEMENT OF LEE M. THOMAS, ADMINISTRATOR

ACCOMPANIED BY:

- A. JAMES BARNES, ACTING DEPUTY ADMINISTRATOR
- HOWARD M. MESSNER, ASSISTANT ADMINISTRATOR, ADMINISTRATION AND RESOURCES MANAGEMENT
- COURTNEY M. PRICE, ASSISTANT ADMINISTRATOR, ENFORCEMENT AND COMPLIANCE MONITORING
- CHARLES L. ELKINS, ACTING ASSISTANT ADMINISTRATOR, AIR AND RADIATION
- JACK W. McGRAW, ACTING ASSISTANT ADMINISTRATOR, SOLID WASTE AND EMERGENCY RESPONSE
- HENRY L. LONGEST, DEPUTY ASSISTANT ADMINISTRATOR, WATER
- JOHN A. MOORE, ASSISTANT ADMINISTRATOR, PESTICIDES AND TOXIC SUBSTANCES
- BERNARD D. GOLDSTEIN, ASSISTANT ADMINISTRATOR, RESEARCH AND DEVELOPMENT
- JOSEPHINE S. COOPER, ASSISTANT ADMINISTRATOR, EXTERNAL AFFAIRS
- MILTON RUSSELL, ASSISTANT ADMINISTRATOR, POLICY, PLANNING AND EVALUATION
- GERALD H. YAMADA, ACTING GENERAL COUNSEL
- JOHN C. MARTIN, INSPECTOR GENERAL
- C. MORGAN KINGHORN, COMPTROLLER

Senator GARN. Mr. Thomas, it is a pleasure to welcome you before the subcommittee today for your very first appearance before the subcommittee. Your predecessor is a hard act to follow, but it appears despite some misgivings of some people over his departure, your successes with OMB has reassured the environmental community.

BUDGET REQUEST

In fiscal year 1986, you are requesting a total budget of $4,667,596,000. This represents an increase of $19.4 million for R&D, $35 million for abatement control and compliance, and $280 million for Superfund. These increases are offset by reductions of $7 million each in salaries and expenses and for building and facilities for a net increase of $339 million.

The budget also requests $2.4 billion for the Construction Grants Program, which is the same level as in fiscal year 1985.

Senator Leahy, do you have an opening statement before we proceed with Mr. Thomas?

Senator LEAHY. I do not. I am going to have some questions later, but no opening statement.

Senator GARN. Senator Lautenberg?

Senator LAUTENBERG. No thanks, Mr. Chairman.

[CLERK'S NOTE: The statement furnished by Senator D'Amato at the outset of the hearing will be inserted at this point in the record.]

STATEMENT OF SENATOR D'AMATO

Mr. Chairman, I am pleased to be here today because the two Federal agencies we are discussing are of extreme importance to the citizens of New York. If you consider the fact that 23 percent of this Nation's Superfund sites are located within the New York region, administered by the regional EPA and FEMA offices, it is easy to see why New Yorkers consider these agencies extremely important.

While we are all concerned about reducing our budget deficit, there are certain areas where it is simply not cost-effective to cut corners, and I want to be sure we are not just delaying our costs at the risk of the health and safety of our citizens.

I have several concerns with EPA which I would like to raise briefly, and will address in greater detail in questions for the record. First, because New York has the third highest number of Superfund sites on the national priority list, I would like to be assured that EPA will be able to get to these cleanups promptly. I am concerned about this because the American Environmental Safety Council has estimated that under current proposals, cleanup of these sites will take about 20 years. Second, I am concerned that EPA have the means to provide sewage construction assistance to those communities which are struggling to come into compliance with the Clean Water Act. Finally, as a cosponsor of the Acid Rain Control Act of 1985, I want to be sure that research and development money directed toward acid rain research is truly an effort to address this problem, rather than another long study which will delay final solutions.

Mr. Chairman, in light of these issues, I have a few questions which I would like to submit to our witnesses today. I also have additional questions for the record, which I would appreciate hearing back on before the subcommittee's markup on this bill.

Thank you, Mr. Chairman.

PREPARED STATEMENT

Senator GARN. Please proceed, Mr. Thomas.

Mr. THOMAS. Thank you, Mr. Chairman, members of the committee.

We appreciate the opportunity to be here today. I have with me today my colleagues from the Agency. I think you have a seating chart that identifies who they are. We will attempt to answer all of your questions today as best we can. I have asked each one of them just to speak up as a question comes in their particular program area.

You have a copy of my statement. Rather than read that statement, I would like to just highlight the statement for you, and, with your permission, have the statement entered into the record.

Senator GARN. We will include your entire statement in the record.

Mr. THOMAS. Thank you, sir.

[The statement follows:]

STATEMENT OF LEE M. THOMAS

Mr. Chairman, Members of the Committee: I appreciate this opportunity to review the status of programs at the Environmental mental Protection Agency and the President's FY 1986 budget proposals. With me today are the Acting Deputy Administrator, A. James Barnes, and the Assistant Administrators who manage our programs. We believe this budget will provide the Agency with the resources necessary to continue to successfully achieve our statutory objectives and to protect human health and the environment.

This budget not only builds upon the foundation laid in the last two years, but it represents a significant expansion in areas where our responsibilities must be met with increased resources. The budget for 1986 provides us with the resources necessary to continue our momentum at EPA and to effectively address the challenges in every environmental medium.

Overview

Our proposed 1986 budget can bring about substantial environmental progress over the next several years. The President is requesting $4.67 billion dollars supported by 13,081 workyears. The request includes $1.4 billion dollars and 11,365 workyears for our operating programs, $900 million dollars and 1,716 workyears for the Superfund program, and $2.4 billion dollars for municipal sewage treatment construction. Our 1986 request will increase EPA's resources by $339 million dollars, and 505 workyears over 1985 levels. The additions amount to increases of 4 percent in people and 18 percent in dollars for programs other than waste treatment grants.

The increased resource levels proposed in our budget reflect the high priority the President places on the programs administered by EPA. These increases are all the more significant when placed in the context of the overall freeze that has been imposed on many Federal agencies and departments. However, within this increased level of resources, the Agency is supporting the Administration's efforts to reduce the Federal deficit. Our budgets for both 1985 and 1986 reflect this support. We have prepared a rescission package for Congress of over $13 million dollars as part of the statutory mandate. Included in our 1986 budget are two proposed cuts which are also part of government-wide initiatives. The first is a reduction in our administrative expenses; the second is our share of the government-wide five percent payroll reduction.

Two lines left

I would now like to focus on several key programmatic issues that are central to the President's proposed 1986 budget for EPA.

The Control of Hazardous Waste

Uncontrolled hazardous waste sites are clearly the Nation's most pressing environmental problem. During the past year and one half, as the Agency's manager for hazardous waste programs, I gained first-hand knowledge about the technically complex and highly emotional nature of these threats to our citizens and to our environment.

I believe our record during the past two years stands as tangible evidence of our commitment to Superfund. We have aggressively gone about the task of addressing immediate threats at hundreds of sites nationwide. By the end of 1984, we had initiated long-term cleanup action at three hundred sites on the National Priorities List. In order to maintain this momentum, we propose a major increase in resources for the Superfund program in 1986.

The Superfund program we propose includes a 45 percent increase in dollars and a 26 percent increase in workyears from our 1985 enacted levels. The majority of this funding will be used to support a better than twofold increase in the number of sites where we will undertake the final cleanup phase of remedial action. We are also requesting resources to greatly expand the Agency's enforcement efforts so that responsible parties will begin site cleanup and to recover monies expended from the Trust Fund to clean up sites.

In addition to correcting the neglect of the past through Superfund, we need to prevent the creation of new uncontrolled sites through the implementation of the recently reauthorized RCRA program. To address the new requirements in a timely manner, we have proposed a $21 million dollar redistribution from within our 1985 budget for the agency-wide RCRA program.

The President's 1986 budget for the total RCRA program proposes additional increases of 146 workyears and $54 million dollars over the 1985 current estimate levels. Together, the redistributed resources in 1985 and the proposed increases in 1986 would nearly double the hazardous waste program resources in dollars and increase by over one third in workyears over 1984 levels. The 1986 increases alone amount to an additional 10 percent in workyears and 26 percent in dollars. These funds will fully support the Agency's efforts to implement existing as well as new program responsibilities such as banning wastes from land disposal, and regulating underground storage tanks and small quantity generators.

Research to Support Agency Priorities

Our 1986 budget increases the Agency's extramural research program by $23 million dollars, a 12 percent increase over 1985. These increases are focused in three important areas of research: acid rain, hazardous waste, and pesticides and toxics.

The 1986 Acid Rain Research program will be accelerated to ensure that timely information is available to develop effective, scientifically sound, regulatory policies. Major emphasis will be placed on initiating research that:

- Describes the sensitivity of aquatic resources to acidification and the rate at which acidification occurs;

- Establishes the extent and severity of currently observed forest declines in several regions of the U.S.; and
- Accelerates the installation of a monitoring network for dry deposition.

The Agency's acid rain effort will increase by 61 percent to $60.5 million dollars. Total Federal resources devoted to acid rain will increase by 37 percent, from $62 million dollars to $85 million dollars.

The Hazardous Waste Research program in 1986 will be increased in response to new requirements mandated by the 1984 RCRA reauthorization. For instance, the legislation's provisions relating to health and risk assessments state that unless the Agency can produce affirmative findings proving no risk will be posed to the public health, we must ban the disposal of hazardous waste on land.

New resources in Toxics And Pesticides will support research to improve the Agency's estimates of human health and environmental risks from toxic chemicals and pesticides.

Additional Resources for Enforcement

We are proposing important increases in enforcement of 278 workyears and $34 million dollars over the 1985 enacted levels--increases of 11 percent and 21 percent respectively.

Two-thirds of the enforcement increase supports the Superfund program. Significant increases for Superfund are essential to maintain the momentum of the program and ensure an enforcement presence sufficient to avoid undue use of Fund resources.

The Agency will continue to seek private-party cleanup in as many cases as possible to conserve the Fund for those sites where there are no viable responsible parties. The 1986 Budget will also support the more complex cost recovery cases which will result as long-term remedial actions are completed.

The President's budget also significantly increases EPA's resources for hazardous waste enforcement activities. This increase, 22 percent in workyears and nearly 50 percent in dollars, is necessary to meet the special compliance monitoring and enforcement requirements of the new RCRA legislation.

Additional enforcement resources are also requested in the water quality area for continued work with municipal dischargers through the National Municipal Policy and the pretreatment program. The basic purpose of both programs is to control the discharge of pollutants from publicly owned waste treatment facilities.

Our proposed enforcement increases reflect the importance with which we view this area of our responsibility. Next to actual environmental results, attainment of high levels of compliance with environmental standards is the Agency's most tangible measure of success. Failure to aggressively enforce the law, leading to low levels of compliance, would reduce the overall benefits from our pollution control investments.

Maintaining Our Grant Assistance Programs

The evolution of roles between EPA and the States is the key to the future of environmental management. The increasing number of programs delegated underscores the need to implement a consistent policy on EPA/State relations.

EPA's 1986 Budget request supports a strong partnership with State and Local governments. The 1986 Budget allocates a total of $278 million dollars for grant assistance programs. All grants directly supporting state operations continue at their full 1985 enacted levels, except for hazardous waste state grants which increase by almost $8 million dollars. The increase for the hazardous waste grants will provide additional support for regulating underground storage tanks and small quantity generators as well as continued implementation of the National Permits Strategy.

The President's 1986 budget continues to maintain our commitment to the Chesapeake Bay and Great Lakes programs. We propose to continue Federal support in this, the second year, of the cleanup program for the Chesapeake Bay. This $10 million dollar level of EPA support is designed to help the Bay States primarily through cost-sharing grants while continuing EPA's role in monitoring and modeling. We also propose $6.1 million dollars for the Great Lakes program.

In addition, our budget request maintains the $4 million dollar support for the Estuarine program, created this past year, for water quality management in four important coastal water bodies.

For our largest grant program, construction grants, we are proposing $2.4 billion dollars in 1986. The request represents the first step of a four year phase out of the program. The current authorization for the program expires at the end of 1985. The proposal submitted to the Congress reflects a reduced Federal role in terms of financing while at the same time maintaining a commitment to fund existing projects which have previously received Federal funds.

Conclusion

The President's budget request for EPA is significant. The increases, of necessity, focus on the problem of hazardous waste disposal. Our other programs are also funded at levels that will strengthen EPA's reputation for responsible enforcement of the environmental laws. These levels also respect the complementary roles of State and Federal environmental authorities and accelerate the quest for knowledge essential to the prudent, effective management of environmental risks. In short, this budget emphasizes the continued implementation of key Agency programs.

STATEMENT HIGHLIGHTED

Mr. THOMAS. We feel our budget, as you indicated, is a significant budget for fiscal year 1986, particularly in the context of the problems that we, the Congress, and the administration are addressing. That is the problems of the deficit and trying to balance those problems with the need for funds to address the real problems that we have in this country; environmental problems being a significant part of those problems.

We feel the budget does provide the resources to continue the strong momentum within the agency. We think that we can successfully achieve the statutory objectives that you have given us with this budget. We also think it provides for significant expansion in those areas where we have been given additional responsibility, particularly those areas relating to hazardous waste. As you indicated, the budget reflects $4.67 billion and over 13,000 work-years. That includes $1.4 billion in operating programs, $900 million in Superfund, and $2.4 billion for our Construction Grants Program. Those are significant increases over fiscal year 1985 of almost $350 million and over 500 work-years. Clearly, I believe this reflects the priority that this administration places on environmental protection and also reflects the priority and increased responsibilities that Congress has placed on the Agency, as reflected in legislation enacted last year.

Let me just highlight a couple of areas for you and then try to respond to the questions that you and members of the committee have.

HAZARDOUS WASTE

First, hazardous waste. Clearly, we have been given additional responsibilities to complement the responsibilities we have been given in the past. This budget request has significant increases both for our RCRA Hazardous Waste Regulatory Program, as well as significant increases for the Superfund Program.

SUPERFUND

In Superfund, we think we are making good progress in the major components of that program which are: identifying the problem and fully analyzing the extent of the problem at each site, responding immediately to those sites that present any kind of immediate threat to public health or the environment, establishing priorities for those sites that present more of a chronic threat, and following through with a cleanup program at those sites as aggressively as we can manage.

Both with our enforcement program and our compliance efforts, we think we are making considerable progress in Superfund. We think the reauthorization proposal which the President submitted to Congress several months ago reflects not only the progress we are making to date, but the fact that we feel there needs to be a strong reauthorization for the next 5 years of the Superfund Program.

The $900 million we requested in 1986 for the Superfund Program will continue the strong momentum and actually reflects a continued growth in the number of sites that will be cleaned up and projects that will be managed under that program.

The other part of the hazardous waste management in the Agency is RCRA. The reauthorization that Congress enacted last year and that was signed by the President, gave us a series of new responsibilities and very stringent time frames within which those responsibilities are to be carried out. We had already moved forward in 1984, and particularly in 1985 to increase resources in our Hazardous Waste Regulatory Program. Again, in 1986 we reflect significant increases in our request.

Specifically the reauthorization gave us responsibilities for the development of regulations and the banning of waste from land disposal. The major new responsibility you have given us is to develop regulations for underground storage tanks and small quantity generators. We estimate the small quantity generator requirement will bring well over 100,000 small businesses under the regulatory program of RCRA. Hazardous waste is clearly reflected as a major priority program for increases in the EPA budget as submitted.

RESEARCH AND DEVELOPMENT

A second major category is research and development. Again, our research request has an increase in funding of over $19 million, which reflects the priorities of hazardous waste as well as several others I will mention. Hazardous waste research is largely targeted toward that regulatory effort which we will undertake over the next several years and that you have given us on banning waste as well as the other regulatory effort. Second, our budget requests a significant increase in our acid rain research which reflects the administration's priority on coming to grips and developing answers to that major environmental problem in this country. Finally, increased research in our toxic and pesticides area particularly reflects our effort to look at the whole area of toxics, particularly focusing on new and existing chemicals and pesticides. So our research is the second major area of increase.

ENFORCEMENT

A third major area I would emphasize is enforcement. Across our programs we request a major increase in resources for enforcement. This includes $34 million, or a 21-percent increase, and 278 work-years, or an 11-percent increase in manpower, for our enforcement programs. Again, particularly in the Superfund and RCRA hazardous waste enforcement effort is where the bulk of these increased resources will go. There are some additional resources that would go into our Water Enforcement Program.

STATE GRANT ASSISTANCE PROGRAM

Finally, the State Grant Assistant Program. EPA is a large agency, but clearly the bulk of the implementation responsibility for our programs rests at the State and local level, particularly State. We reflect in our 1986 request a continuing strong commitment to the State partners in this effort. Our $278 million State grant request reflects the full 1985 enacted level as well as an additional $8 million increase in hazardous waste grants. The RCRA grant increase primarily reflects the underground storage tank responsibilities that States will begin to pick up in fiscal year 1986.

Just to mention a couple of others, beyond those four major priority areas for increases are the Chesapeake Bay and Great Lakes programs, two initiatives within the Agency that we continue to focus on. We want to continue the strong momentum of these efforts that we started there several years ago. Chesapeake Bay is $10 million; Great Lakes over $6 million; and our Estuarine Program $4 million, which focuses on four other bays.

CONSTRUCTION GRANTS PROGRAM

Our Construction Grants Program is a $2.4 billion continuation of the level that is reflected in fiscal year 1985 and has been for several years. Clearly, reauthorization of the Construction Grants Program is a major issue that Congress is coming to grips with this year. As you know, the administration has submitted a request for the phaseout of that program over the next several years for Congress to consider. But in fiscal year 1986, we requested the same level of funding that we requested and have in place this year.

So in conclusion, I think we have submitted a strong budget for EPA. I think it reflects our commitment to continue strong environmental programs. It reflects increases for hazardous waste research and a strong enforcement program and continuation of a strong State-Federal partnership in implementing our environmental statutes and regulations.

We do appreciate the opportunity to be with you today, and I, along with my colleagues, will try to answer the questions that you have for us.

IMPACT OF PROPOSED BUDGET FREEZE

Senator GARN. Thank you very much.

EPA is one of the few domestic Federal agencies which has been proposed for increases in the President's budget. I personally believe such increases are appropriate. However, recently the House of Representatives reduced the authorizations for two other domestic agencies down to the current fiscal year 1985 level, such as NASA and the National Science Foundation. Furthermore, it appears that the Senate budget resolution as well as the White House/Senate leadership deficit reduction plan both call for a freeze on activities which include EPA.

I am not one who often favors across-the-board cuts because they don't take into recognition the priorities and where some things can and others cannot be cut or at least should not, but it is possible that Congress might take that approach this year.

So I would really like your views if that happened how that would impair the Agency and how you would attempt to deal with that. I don't expect you to go through a line item budget of here, there, and everything else, but more of a general answer to if that did happen and you got a freeze at the 1985 levels, what would your response be to that?

Mr. THOMAS. Senator, it would have a tremendous impact on several of our programs. The budget process is a long process for us. We go through, as you know, a lengthy process within the administration and a fairly lengthy process with Congress before it is completed. We make hard choices as we go through that process, both within the Agency and, I think, as you do, external to the Agency. We have reflected long and hard within the administration on this budget that we have submitted to you. We made very hard choices because we felt we could justify increases in many of our programs. We balanced those choices against the need for control of domestic spending and other spending in Government.

In this budget we basically froze, or slightly increased, many of our programs at the 1985 level. We requested increases in those programs which we felt were absolutely necessary. If we were frozen in those programs where we have requested increases, it would mean that basic things could not be done.

Superfund, where we requested an increase of nearly $300 million, is probably an excellent example. Without that additional $300 million, we are not going to clean up a specified number of sites. We will just have to lay out for you how many those are. We would have to try to turn more toward some kind of short-term stabilization effort in those projects as opposed to going forward with cleanup efforts at many cases which have been under study and development for several years. Most of the projects take several years and they are now coming to conclusion. We would have to back away significantly. We would also have to back away on the enforcement side of Superfund as far as follow-through on private party cleanup at sites.

In RCRA, we would miss, I think, significant deadlines that you have given us and we have given ourselves. Additionally, in our request we included a significant increase in our enforcement resources for RCRA. We would be forced to make additional hard choices. I think basic protection efforts would have to be curtailed and projects would have to be significantly slowed and not completed in some cases, if those kind of hard choices were forced upon us.

Senator GARN. The difficulty I have is that I can look at individual budgets in isolation and agree with everything you say. But as I have already stated, I see the request for the increases and then I look at the National Science Foundation being frozen and people say, "So what, how does that compare to EPA?" If you start looking into basic research in this country, one of the greatest assets we have ever had is our technology and our science, and we are saying, "Well, we will freeze that." This affects science education, teachers for junior high and high school to train future scientists, mathematicians, all of that looking down the road. So that is the difficulty of this. I don't want to freeze EPA, but I can make one hell of a case for the National Science Foundation looking down the road, 20 years and what the lack of funding does just in science education.

So that is the difficulty of this whole budget process, and you can make a case for how hard it would hurt you if you were frozen, but I can make it in a lot of the other agencies before the subcommittee as well.

I don't expect you to answer that. There are some difficult choices to be made.

CLEAN AIR ACT—TALL STACKS RULEMAKING

Senator GARN. Let me take the rest of my time on this round to get into a rather parochial issue, a general issue but also parochial in its impact and only a little bit of explanation.

Way back when I was mayor of Salt Lake City—I hardly remember it has been so long—my first battle with EPA came about with proposed transportation studies. When I picked up the newspaper one morning and read a story about how EPA had a transportation control strategy for Salt Lake City in car and bus pool lanes, elimination of parking in a six-square block area, the thing that surprised me as mayor of the city was that I was never informed of it. I read it in the newspaper. I went to work that morning and called in all my department heads and found out nobody else in the city had ever heard of it.

A couple of days later, a representative of EPA showed up and I said, "Well none of us have ever met you, nobody has been here to talk to us; no nothing."

"Well, this is a standard plan we are using on a lot of cities."

"Well, that is wonderful, but you might consider the conditions are different here. Maybe you should do a little testing before you impose standard plans."

So we had quite a fight over that at the time. We were not unwilling to try to clean up the air; that was not the point. We thought there might be a much better way than taking some off-the-shelf standard generic plan that may help some cities, but not ours.

Once again I find myself in a similar situation primarily with coal-burning electrical plants. Kennicot Corp.—7,500 employees out of work and tall stacks, constant changing our regulations.

We have something that makes things a little different—low-sulfur coal. We get involved with percentage reductions where our coal is cleaner than a lot of coal in other parts of the country after they have been scrubbed. Yet we are told you are going to take the same percentage out of yours, and our stacks are cleaner before the scrubbing than some of the Eastern coal is after the scrubbing.

PROBLEMS POSED BY STANDARD PLANS

So we are getting back into standard plans again. Some of your models assume there are no mountains, all in flat terrain. Well, we do have mountains and high rugged terrain makes a difference in the application of some of these laws.

I am making more of a speech than a question, but I guess my question boils down to, Are we going to have some individual consideration? I am saying this as a supporter of EPA, one who supports your budget requests, are we going to have some common sense or during my entire political career am I going to have to represent a State that has different conditions that is not flat like Kansas; that does not have dirty, high-sulfur coal? I understand the economics of some of my Eastern colleagues who don't want to buy Utah coal that would burn cleaner; it would shut down some of their mines. I understand that. What I am really saying is, is there going to be some individual looks at individual conditions rather than these models that supposedly fit a whole country and cause the electrical rates on my million and a half people in the State of Utah to go up for no environmental benefit whatsoever— zero—when we are already meeting the standards with the stacks that are there, without scrubbers because God blessed us with some clean coal and we do not have to go ahead with regulations that cause enormous expenditures of money that have no environmental or health benefits to the citizens of my State.

FEDERAL/STATE COOPERATION

Mr. THOMAS. Well, Senator, in reference to your earlier experience, let me say first, the Agency will try, does try, to work through States with communities to take into account local conditions, and will always try to work with them to develop plans to comply with the regulations.

Under the Clean Air Act specifically, the State is largely the leader in developing the implementation plan. We set the standards. Then we work with the States; the States develop the plans; we review them and approve or disapprove them and work with the States.

As part of my management priority, we will always try to reach out and provide technical support and assistance to communities. We will always try to take into account local conditions as best we can within our regulations to help them comply and help them develop their capabilities.

Let me say that when we begin to do that, we do it in the context of the laws and regulations that we have. The laws that we have been given and the regulations that we have written do constrain us, as do technology and science, I think, as to how much we can take into account individual conditions. We find in the subject of tall stacks, as an example, an extremely complicated regulation, one that Congress and the Agency have been involved in for a number of years, and the courts have been involved in for a number of years.

We are drawing to a conclusion on the latest round the tall stacks regulation, and we are in the midst of dealing with some of the very issues you point out.

I cannot tell you the specifics on how that will come out, but we are in the midst of trying to gather together comments and develop the specifics. But we try to take into account individual conditions as best we can within the context of the science, the technology, and the laws that we are given to work with.

IMPACT OF TALL STACKS RULEMAKING

Senator GARN. I just want you to know this is one that I will raise hell over if there isn't some individual—I will just be that blunt about it. If I was standing here before you or sitting here before you, or floating here before you, or whatever—[laughter]—and was asking for some excedence of the standards required by the Clean Air Act, now that is a different story. I would not be doing that saying we want something because it is going to cause an economic impact, we want to go ahead and pollute the air. That is not the issue.

I am talking about if we are meeting all the standards because we have low-sulfur coal, why impose $100 million of costs which will be transmitted on to the consumers. Electrical rates have already gone up dramatically over the years. I am just going to have to find out to block you from doing that unless you are willing to get out of the laboratory with these tall stack models you make and look at individual conditions and you will not impose $100 million of costs if we are already meeting the standards and below the standards and cleaner than some other States that you will impose these regulations on.

With the economic difficulties we have in this country, the problems of your budget, to attempt to clean up the environment by using an arbitrary countrywide approach is not acceptable. I just will not represent the State of Utah and tell my constituents that as chairman of this subcommittee I cannot try to do something about this. In New York, $100 million may not be much, but in Utah, that is a hell of a lot of money. It really is. If it caused increased health benefits for my citizens, fine. Let's spend $200 million, but, again, we have got clean coal. We built some stacks under previous regulations, and I believe I have made my case as strongly as I can. I don't know how more strong to make it.

We are not going to continue to play that game of having standards necessary in other States imposed because we have clean coal. Maybe the next thing you come up with is we will have to import dirty coal from outside the State so the scrubbers will clean it up to meet the standards. I wouldn't be surprised.

Mr. THOMAS. Senator, I have found that like other regulations in EPA, people do feel fairly strong about this regulation—on all sides of it.

Senator LEAHY. Nah. [Laughter.]

Mr. THOMAS. I have heard the very argument you just gave me on this regulation from others, just as you evidenced. I think there is tremendous concern on that side as to what impact these regulations will have and we are trying to take that fully into account as we develop these regulations. But clearly, Congress gave us direction that they are concerned about what happens to pollution on a long-range transport basis. They are concerned about what happens when that pollution, through tall stacks is sent further than may be warranted and Congress wants us and has wanted us for quite a while to develop a regulation that balances out the kind of air standards that we have in the near term with the kind of long-term problem presented by tall stacks.

That is the balance that we are trying to come to grips with in these regulations.

Senator GARN. I understand what you are trying to come to grips with, and I am trying to get you to understand when you are burning coal that has three-tenths of 1 percent or less sulfur. It ain't polluting somebody in Vermont if you build a 10,000-foot stack. That is what I am talking about. Don't impose something on us that we are not doing because we are fortunate enough to have that clean coal out there. My time is well past.

Senator Leahy?

Senator LEAHY. Thank you, Mr. Chairman.

Mr. Chairman, I would like, with your indulgence, to use some slides over here in connection with a couple of questions I have. We can actually play it off Lautenberg's forehead. If he knew how to grow his hair——

Senator GARN [interposing]. You and I would be——

Senator LEAHY [interposing]. At least the chairman and the ranking member know how to comb their hair around here. We should have better standards for newer members.

Senator GARN. I used a sponge to comb mine. [Laughter.]

[A slide presentation followed.]

Senator LEAHY. That was New Jersey when it was nice. [Laughter.]

Senator LAUTENBERG. You want to take away our tall mountains.

Senator LEAHY. Looking at the mountains of Kansas here—[laughter].

ACID RAIN—INTEGRATED SULFUR STRATEGY

Senator LEAHY. The reason I bring these slides today is that Vermonters take their town meetings very, very seriously. Of our 250 towns, 150 called on the Environmental Protection Agency to do something about acid rain, bring about an acid rain solution. This was across the board. This was debated and came as a grass roots initiative. They are frustrated; they are angry; they feel there is opposition to acid rain legislation, and they want to do something about it. Let me show you why.

This was taken from Mount Mansfield, which is our highest mountain in Vermont. It is looking at a view similar to what I see out the front steps of my own home in Vermont. You are looking at the south ridge of Mount Mansfield along here. You have Bolton Mountain here; beyond that is Camels Hump, which is the sharp peak here. That is 15 miles from where this picture was taken, and Mount Ellen beyond it is 30 miles from there.

On the day this picture was taken, the sulfate concentration was 1 microgram per cubic liter, and there was no detectable presence of Midwestern pollution. I mention this because this picture was taken and the test results made for that. Let's go to slide 2.

This is the next day. The sulfate is up. It's from 1 to 6 micrograms. Camels Hump is here and that is the one you could see sharply before. It is barely visible. The picture is taken from precisely the same place. Sixty percent of the sulfate in that is from the Midwest.

Now the third day, Camels Hump has totally disappeared. Bolton Mountain, which is 5 miles away, right here, is just barely visible. Ninety-seven percent of the sulfate is from the Midwest. This is just in 3 days.

Now, let's go to even 1 day later, 4 days later, the sulfate concentration is now 35 times higher than the first slide. Again, 4 days. You can barely see even the south ridge here. You can't see any of the mountains beyond there, 5 miles away. Mount Bolton is gone; Camels Hump is gone; Mount Ellen is gone; and 100 percent of the sulfate is from Midwestern sources, and that night it rained. You can probably see this even more on a fifth day. The fourth day it rained. The pH was 3.47. That is 100 times more acidic than normal rainfall; 100 times more acidic than the rainfall would have been on day 1.

Just to emphasize this, Jim, can you go back, go all the way back to the first one. Remember, day 1, day 2, day 3, day 4.

Thank you.

The reason I do that, I have been taking pictures of almost that same scenery literally off the front porch of our home looking down through there for years. The sad thing is, this. During the winter, I have gone back cataloging some slides and have seen some of this, not taken for any scientific reason at all. We had those available which are more scientific. I must say, Mr. Thomas, I know both Senator Stafford and I appreciate the fact you are going to come to Vermont and some of you are going to see.

That is why Vermonters are frustrated when we talk about action on acid rain. Very few of us are scientists; I am not; most Vermonters are not. There are a few who are.

I have a report that was prepared by your staff entitled, "The Integrated Sulphur Strategy." On page 17, it lists seven different regulatory actions you take that might reduce sulfur dioxide. According to this, four of the seven would have a major impact on pollution levels. By major impact, anywhere from 3 to 12 million tons a year. The memo says in almost every case the EPA is not going to tighten those controls. Why is that?

Mr. THOMAS. Senator, the Integrated Sulfur Strategy is an ongoing project within the Agency. The issues that we are currently reviewing require additional work by the staff that is preparing that report that is underway. We haven't made decisions and I haven't said yes or no related to an integrated sulfur strategy. I am still anticipating getting a full review of the recommendations or the options on integrated sulfur strategy.

Chuck?

Mr. ELKINS. Many of these actions are still before us. I don't know why it would say we are not going to do them. We have not taken action on these in the past, but they are before us now for decision.

Senator LEAHY. Well, "The view of present policymakers note in the environment special report cites Charles Elkins, head of EPA Acid Rain Task Force, saying Congress never intended the EPA to solve the acid rain problem through the Clean Air Act. Instead of using the statute that way, Elkins said whether controls should be implemented should be settled straight on in Congress."

But you could use the Clean Air Act to exercise those kinds of controls, could you not?

Mr. ELKINS. Just as we were talking a few minutes ago about the Tall Stacks Program, if you chose to interpret the Clean Air Act as being directed to acid rain, then you could use that regulation as a way of removing more sulfur. The administration position in the past has been the Clean Air Act was not directed at these long-range transport problems, specifically acid rain, but at such things as the averaging period used for enforcement and how we set the ambient standards based on health and other welfare matters, not on the acid rain problem.

Senator LEAHY. Let's use another part of that, you were required in 1980 to make a proposal to protect visibility under section 109(d). Wouldn't that come under this? If you don't want to talk about acid rain, how about visibility?

Mr. ELKINS. We have some regulations out on visibility. We have a task force that is now looking at other matters of visibility. That issue is still before us.

Senator LEAHY. How long is it going to be before you? I showed you four slides today, and we used those particular four because it was four that was actually taken 4 days in sequence in the same spot and somebody had gone to the effort of studying what was involved and what caused it. I can show you hundreds, year by year by year, in the same place showing it getting worse and worse. How much worse is it going to have to get before something can be done or is there anything that can be done?

Senator GARN. We could require all the Midwest powerplants to burn Utah coal.

Senator LEAHY. Is there anything that could be done? Would that have to be the solution? I am serious.

Mr. THOMAS. Let me try to back up a minute and respond generally to that.

Senator LEAHY. I am really searching for an answer because I have not—I can't think of any place I have gone in the last year or so in Vermont that somebody doesn't raise the issue. They are not saying, Pass a whole lot of new laws; they are saying, What can be done? They see the damage and they say what can be done. Prime Minister Mulroney, in fact, put it as his No. 1 thing to raise with the President, as you know. When they asked me the question, can I tell them you use the Clean Air Act to clean up this problem, what can I say?

Mr. THOMAS. I think you can say yes, we are using the Clean Air Act to deal with clean air problems, but that has direct and indirect effects.

You look over the last number of years at the amount of sulfur dioxide pulled out of the atmosphere. It is about a 30-percent reduction over the last 10 years. Obviously that has an effect on the visibility problem you have got. We are going to continue to move forward aggressively to implement the Clean Air Act. I think Chuck's statement related to the deposition. If you look at various control strategies that may be options, and if it is determined this is the specific problem worthy of the kind of control strategies talked about in the Clean Air Act, generally, then the various strategies and options that we talk about in our paper on the integrated sulfur strategy are certainly not the most cost effective, or the most management effective, way to implement the dramatic controls required to deal with the kind of levels and geographic specificity that has been suggested when you look at various control options. I think that is why Chuck suggested in his statement that this is an issue not due to the general Clean Air Act nationwide, but a specific kind of problem that the Congress and the administration would more likely address in a specific control approach, either through new legislation or through a proposal for new legislation from the administration.

The administration is reviewing the policy issue on a continuing basis so we can make a recommendation on whether or not we feel that kind of specific additional authority for control is needed.

Senator GARN. Senator Lautenberg.

Senator LAUTENBERG. Thanks, Mr. Chairman.

Lee, it is good to see you here in this capacity—my new capacity in this committee and yours as the Administrator. I seem to follow you around. It's true, from environment to here. I have a couple of questions about the Superfund and then I would like to talk about asbestos removal.

I wish EPA could concoct a system to reverse the wind direction for just a few months so that we can send it back out the other way and then everybody would jump into this thing in a hurry in terms of polluted air and acid rain.

I wish, Pat, you had a chance just for a little bit to listen to the cries as those deposits took over.

Senator LEAHY. I agree.

Senator LAUTENBERG. I know Mount Mansfield and that area very well. I like Vermont too. I don't like the Senators, but I love the State. [Laughter.]

Senator, I'm sorry. I'm very fond of Stafford.

Senator LEAHY. We are not going to let your visa to go to Vermont any more. No more of you southerners coming to Vermont.

SUPERFUND SITE REMOVALS

Senator LAUTENBERG. Lee, how much of the Superfund moneys were spent in the removal of sites thus far? How many sites have been removed; let's start with that?

Mr. THOMAS. Jack, I don't know if you have the specific figures there or not.

Senator LAUTENBERG. If he doesn't, I can supply them.

Mr. THOMAS. Maybe we can supply them for the record.

[The information follows:]

CLEANUP ACTIVITIES AT NPL AND NON-NPL SITES

As of April 8, 1985, EPA has cleaned up two national priorities list [NPL] sites via a removal response (Chemical Metals Industries, MD, and Chemical and Minerals Reclamation, OH). In addition, 259 non-NPL sites have been cleaned up via a removal response. A site is considered cleaned up when site response activity has stopped and the on-scene coordinator determines that further action is unnecessary.

As of March 31, 1985, EPA has completed all phases of remedial construction at six NPL sites. They are: Luminous Processes, GA, Gratiot County Golf Course, MI, Walcott Chemical, MS, Butler Tunnel, PA, Enterprise Avenue, PA, and Taputimu Farm, AS.

EPA expects to complete remedial construction at an additional 10 sites in the remainder of fiscal year 1985. They are: PCB Roadsides, NC, PCB Warehouse, CM, PCB Waste, TT, Lehigh, PA, Mountain View, AZ, Matthews Electroplating, VA, Sylvester, NH, Rose Park, UT, Middletown, MD, and Pinette, Me.

In addition, as of April 8, 1985, EPA has stabilized 148 NPL sites and 46 non-NPL sites via a removal action. A site is considered stabilized if a removal action has been completed but the Agency determines that additional removal or remedial work may be necessary. As of March 31, 1985, the Agency obligated $106,925,000 on removals and $356,354,000 on remedial actions.

Mr. THOMAS. There are two parts to the program, the removal program, which is the emergency response, and then the remedial program. In the removal program, we responded, as you know, to several hundred sites; the majority of those we have completed action on. So we would have completed action at several hundred sites under the removal program.

The remedial program is the long-term program. We completed action at a number of sites, but we have action underway at several hundred sites.

Senator LAUTENBERG. How many can you say, using whatever definition you want, have the site totally removed, including whatever remedial action is required, your definition sometimes befuddle me, I know there are half a dozen sites that had had complete action under the phase of the program, how many can we say today have been totally dealt with?

Mr. THOMAS. The remedial program for long-term cleanup is the one people generally refer to when they want to know how many sites have been finished. I think that six sites have been completed. By the end of this year we are projecting that 16 will have been completed. That means actually delisted from the national priorities list. On the removal side, we have several hundred that have been completed.

Senator LAUTENBERG. The funding that has been requested for this year for Superfund—$900 million, I think—is where we are at. We have had agreement, I think, in the past about what could be efficiently used versus what is desirable, and I think we agreed that what could be efficiently used is even more than the $900 million a year, if I remember your testimony and the statements that we developed for the record in Environment and Public Works; $4.5 billion is where you were.

Mr. THOMAS. $900 million.

Senator LAUTENBERG. I thought you were something over $1 billion, $1.1 billion.

Mr. THOMAS. For the year we are talking about, 1986, $900 million, we think, is the proper figure, because that reflects the pace of the program. That is going to gradually increase as we get more and more into the construction phase of the program, but that is running the program at the pace that we think is maximum.

Senator LAUTENBERG. We have even disagreed on that——

ASBESTOS-IN-SCHOOLS—REMOVAL SCHEDULE

Mr. THOMAS [interposing]. Yes, sir.

Senator LAUTENBERG [continuing]. In terms of, perhaps, more use of outside contractors, et cetera. I just wanted you to be aware I will be continuing to press that. You would be surprised if I didn't. You would also not respect my representation of my State if I didn't. We have a lot more to be done.

Let's talk about the asbestos problem. As you know, I am one of the authors of the legislation that calls for the removal of asbestos from schools. The deadlines were set up so that schools could have the funds at hand to do the work over the summer. Are you on schedule for receiving and processing applications for asbestos in the school program?

Mr. THOMAS. Senator, we are on schedule on that.

Jack, you may want to talk to that. I believe we are aiming toward those applications awards in June and I think everybody is on schedule.

Mr. MOORE. We are on schedule.

Senator LAUTENBERG. What sums of money are we talking about?

Mr. THOMAS. Our appropriation this year was $50 million, as you know. The sum of $5 million was available for the administration and certification and training portions of the program which is a very important component, and $45 million for the actual grants. We anticipate we will award all the grant money in June.

FRIABLE ASBESTOS

Senator LAUTENBERG. Is that so? As you know, friable asbestos is a problem that parents and families around the country are very much aware of. There is a great deal of anxiety about it. Give me an idea what your information is on the number of schools in the country that may have a problem with friable asbestos?

Mr. THOMAS. Do we have an estimate on the number, Jack?

Mr. MOORE. Senator, we do have a number as to how many schools have asbestos containing friable material. The exact number escapes me right now.

Senator LAUTENBERG. It doesn't have to be precise.

Mr. MOORE. 12,000, I think.

Senator LAUTENBERG. 12,000.

Mr. MOORE. Had some type of asbestos containing friable material in their school.

Senator LAUTENBERG. Whether it is 12 or 13 matters a lot to those who are not included.

Mr. THOMAS. We will provide the specifics for you, Senator.

[The information follows:]

SCHOOLS WITH ASBESTOS CONTAINING FRIABLE MATERIALS

A survey determined that, as of January 1, 1984, there were 30,830 schools in 11,031 local education agencies with asbestos containing friable materials [ACFM]. As of January 1, 1984, over 20,500 of the schools with ACFM had some type of abatement work completed or in progress and over 7,000 schools were planning some type of abatement action.

ASBESTOS ABATEMENT—FINANCIAL ASSISTANCE APPLICATIONS

Senator LAUTENBERG. How many applications for financial assistance have you received so far?

Mr. MOORE. Senator, we have received about 1,100 applications from school districts representing 4,800-odd schools, and about 8,000 specific projects within those schools.

Senator LAUTENBERG. Can you give me an estimate—those applications include some estimate of what it would take, don't they have—or do they just give you the scope of the job and you do the arithmetic on it?

Mr. MOORE. The numbers I am citing to you are strictly a summation of the costs included in the application. The dollar costs cited do not reflect any judgment on our part as to accuracy or anything else. The costs certainly do not reflect the finding of financial need that is required by the Asbestos School Hazard Abatement Act. The sum total of the applications, as I recall, was some $550 million worth of work.

Senator LAUTENBERG. That is about a third of those schools that you are aware of, if I remember—the numbers, 4,000 you said, $500 million?

Mr. MOORE. That would be the sum total of the costs of the projects in the approximately 4,800 schools.

Senator LAUTENBERG. There has been no request for supplemental appropriation for this year; am I correct?

Mr. THOMAS. That's correct.

Senator LAUTENBERG. Is there any request for funding for 1986 for this program?

Mr. THOMAS. No, there is not, sir.

Senator LAUTENBERG. Where do we go with the program in terms of the next phase if we have not requested any funding for this year or no authorization for next year?

Mr. THOMAS. Senator, let me respond with two points. They have to do with the timing more than anything else. One was, as you know, we have been very concerned about the role that a federally funded program may play in assisting local school districts in dealing with their asbestos problem. We were concerned that Federal aid might retard rather than assist in the cleanup effort if school officials delayed their effort to await Federal asistance. If they delayed their effort they would not be eligible for money. As you know, we have found that many school districts throughout the country moved out very aggressively in the last couple of years to deal with this problem.

Many of them are spending far more money than we envision would be available through Federal aid. We are looking through the applications that have come to us to see how much of a remaining problem we have with regard to both hazard and financial need. We are hoping in May to have a much better feel for the size of the remaining problem.

In other words, we will be analyzing how much effort had been undertaken and completed by school districts and how much remains as far as hazard is concerned in schools that have a financial need. In May, I think we will have a much better feel for the size of remaining funding needs and also a much better feel for whether we think that funding assistance will retard or assist the overall effort to clean up the asbestos problem.

Senator LAUTENBERG. In New Jersey we had some fairly aggressive action taken by school districts who just could not wait, would not wait.

Mr. THOMAS. That's right.

ASBESTOS ABATEMENT—ELIGIBILITY FOR FINANCIAL ASSISTANCE

Senator LAUTENBERG. By the way, the districts that I visited were not necessarily those with affluent residents. They just felt they had to get on with it. Of course, some of them see the problems more seriously because you can see the crumbling asbestos in front of you. I guess one way to solve that—and help me out here—is to make sure that actions taken by individual school districts does not remove their ability to select the funds from the Agency or from the program when, in fact, they might be eligible for assistance; is that the case?

Mr. MOORE. Senator, I think the law stated if work had been completed by January 1, 1984, it would not be eligible. If work was completed subsequent to that date it would be eligible for Federal aid.

Senator LAUTENBERG. I am not sure I understand the logic that says, OK, if they know those funds are not available, that is the incentive to get going with the program. How does that square?

Mr. THOMAS. I think that is a good point. I think your point is good.

Senator LAUTENBERG. What we ought to do is extend the date. You say that is January 1, 1984?

Mr. MOORE. Yes, it is January 1, 1984.

Senator LAUTENBERG. We will have to take a look at that date. Maybe we ought to move that back. I am told my time is up.

Mr. Chairman, are we going to be going around again?

Senator GARN. I haven't decided if I am going to let you speak again or not. I take it under advisement.

Senator LAUTENBERG. I'm determined to squash that NASA budget. [Laughter.]

Senator GARN. Well, I am back now. [Laughter.]

Senator LAUTENBERG. I tried. I really did. I think your wife and kids are terrific, but I did want to try to stop that appropriation right in the middle of that trip.

Senator GARN. There was enough fuel for that flight. I would suggest, Senator Leahy says he has a couple more quesions, if you have a couple why don't you go ahead and finish them and I will finish up.

Senator LAUTENBERG. I want to talk about a problem that we have in New Jersey. It's a national problem as well but in particular my own——

Senator LEAHY. We were afraid it was going to be a parochial issue and want to tell you as a new member to the Appropriations Committee if you were going to raise a parochial issue it is the first time it has ever, ever happened. [Laughter.]

Senator LAUTENBERG. What I am really trying to do is help the States of Utah and Vermont by having people live in New Jersey able to earn a living so they can——

Senator GARN. Depending on how much time you get depends on whether you ski more in Utah than you do in Colorado? We need the revenue more than Colorado does.

Senator LAUTENBERG. I hate that gray black stuff that comes from those tall [laughter].

Senator GARN. You know what light white powder we have.

Senator LAUTENBERG. I think we should move along here. [Laughter.]

RADON ASSESSMENT PROGRAM

I have a copy of a draft report which was prepared by EPA's Office on Radiation Programs. You know about the report. It is called the Radon Assessment Program and deals with the problem of indoor exposure and problems currently plaguing several communities in the State. My own, as you know, just a couple of blocks away from my home, radon was discovered and is not only a local but very serious national concern. You are aware of the draft report?

Mr. THOMAS. No, sir, not fully. I have had some briefings with the staff and have asked them for more extensive briefings relating specifically to radon.

Senator LAUTENBERG. I assume in its final edited phase some of the things I am going to say here will survive. If not, then, perhaps, we will have to review the questions I am about to ask you. One quote is, "Experts estimate that exposure to radon and short-lived decay products inside buildings result in 5,000 to 20,000 lung cancer deaths each year in the United States alone."

I am not asking for your endorsement. That is what is in there. That is out of a total of some 100,000 lung cancer cases in the country. The Office of Radiation Programs requested $4.5 million over a 5-year period to conduct research into the hazards and mitigation of Radon exposure. Why didn't EPA include this request in its budget?

Mr. THOMAS. Senator, I can't give you a specific answer as to why that wasn't included in the 1986 budget. I don't know if Chuck Elkins can or not. I am sure the decision was made in the context of overall funding levels that the Agency was going to apply for and what the Agency wanted incorporated in that budget. I can tell you as far as the radon issue is concerned, I have asked for additional information and briefings related to the issue that you raise. If necessary, if we feel it is something that we should focus on, then I think we will have to determine where we would get the money either from within the budget or additional requests.

Senator LAUTENBERG. See that we get your formal response to that.

Mr. THOMAS. Be glad to.

[The information follows:]

RADON ASSESSMENT AND CONTROL PROGRAM

Senator Frank Lautenberg requested a formal response as to why the Agency did not include funds for a radon assessment and control program. The plan submitted during the fiscal year 1986 budget process called for development of a nonregulatory program. A program of this type has not competed well during the budget process as it is compared to other higher priority air and radiation programs that are required by statute. The Agency did not request funds for the Radon Assessment and Control Program from OMB.

Senator LAUTENBERG. In 1985, the National Cancer Institute will spend over $21 million on research as to smoking as it relates to incidence of lung cancer. This report makes it clear that Radon poses a comparable threat. Wouldn't you think it is worth $900,000 to begin a full assessment of the health risks of Radon exposure? I guess what you have said as you look at it a little bit more you will evaluate it.

Mr. THOMAS. I am going to look at it very hard.

Senator LAUTENBERG. Please do, Lee, because even as I became acquainted with the statistics, I was shocked. We warned everybody in the country about smoking and I heard something that is devastating in terms of its effect on respiratory disease, and we are not giving it the full attention. Thanks for the indulgence.

Senator GARN. Senator Leahy.

Senator LEAHY. Thank you, Mr. Chairman.

1984 RCRA AMENDMENTS—STATUTORY DEADLINES

Mr. Thomas, just about 6 months ago the President signed the 1984 amendments to the Hazardous Waste Act. The earlier drafts of this legislation included some very, very tight deadlines. These were lengthened at your request to meet deadlines that you said you could meet. On February 13, this committee asked a question of you and the Agency stated that all major provisions of the RCRA amendments to hazardous waste deadlines would be met. That was February 13. About a little over a month later, March 26, we received a list of eight deadlines related to regulatory deadlines you are not going to meet. This last week in response to a series of questions I asked, you indicated you cannot now commit to meeting the deadlines for such land activities, land disposal permits, incineration facilities, storage facilities:

Current and requested funding for fiscal years 1985 and 1986 is sufficient to allow us to work toward meeting these deadlines. Permitting is one area where we will need more experience with new requirements and is provided by HSWA before we can firm our ability to meet the statutory deadline.

What happened since November when the President signed the bill and since February when the Agency said it could still meet the deadlines?

Mr. THOMAS. Senator, that is a good example of what happens when we get deadlines in the statute. When you begin to implement that statute, you find that there are many legal questions; there are many policy questions; there are many regulatory provisions, scientific and technical questions, and practical problems that no one envisioned when they talked about the deadline.

That is part of the reason why I struggled so hard, first to try to get the deadlines not incorporated into the statute and, second, when I realized that that was not going to be possible, to get them lengthened as much as possible. As we get into these programs, and permit issuance is a good example to talk about, we find that there are major issues that arise from interpretations of provisions in the reauthorization that will impact on RCRA permitting. These issues were hard to envision until we got into the middle of them. Corrective action requirements for prior releases and just the whole issue of dealing with prior releases at permitted facilities has turned out to be a major issue that is going to impact on permitting.

Trying to determine how we will deal with the issue of prior releases, developing guidance for prior releases, and trying to continue a permitting program that is supposed to take that into account, has turned out to be a major issue that we are in the midst of coming to grips with. That is just the reality of what happens when you take something in a statute and begin to try to implement it. It does evolve over time.

Senator LEAHY. Suppose your resource levels were higher in the hazardous waste resource budget, would your probability of meeting the congressional deadlines be higher?

Mr. THOMAS. I don't think that on permitting we are talking about a resource issue as much as we are talking about new requirements that are going to have to be incorporated into the permitting process. There may be some resource issue associated with it, but I don't think that is the primary problem we are talking about in permitting.

NEW SOURCE PERFORMANCE STANDARDS—DEADLINE

Senator LEAHY. I, personally do not like putting statutory deadlines, whether it is EPA or a lot of other things, Department of Defense, as my capacity as vice chairman of the Intelligence Committee, in a number of the black areas of the budget. But sometimes deadlines come out of a sense of frustration. There are two areas where I think EPA is far behind the deadlines—you have the new source performance standards [NSPS] and hazardous air pollution standards. I have done a review of this area. I have it here. The deadline for NSPS was 1982. The deadline of NSPS has been missed many times. Your budget says—and I am very happy to see this—your budget states:

> Efforts are continuing to complete NSPS for all source categories required by the Clean Air Act.

But when I asked how do you speed up NSPS's, the response I received is that there are six new source standards on which development has not started and you need $1.2 million to start them. My question is, Are we continuing to work on all new source standards or the six yet to be started?

Mr. THOMAS. Chuck?

Mr. ELKINS. At the end of 1986, there will be 11 categories that are not yet covered in NSPS. By 1988, based on work we have already done or will be doing during the next year, we will finish up 5 of those. In the total of 52 categories, that leaves 6 categories that still have to be finished. The 1986 budget does not include money to start those since we intend to start those in 1987, and that would give a completion date for those 6 of 1991.

Senator LEAHY. Are new source standards a priority?

Mr. ELKINS. They are and they have been for a good number of years. But going through the budget we had to make some hard decisions and this is where we felt a 1-year delay in these six categories was what we would have to settle on.

Senator LEAHY. Well, then let's see what you are talking about, hazardous air pollutants. They are a major program emphasis in 1986; is that right?

Mr. ELKINS. That was one of the places we put some of this money from the NSPS Program.

Senator LEAHY. In fact, you committed to make a decision whether to list 20 to 25 hazardous air pollutants this year; is that correct?

Mr. ELKINS. That is correct and that is on schedule.

Senator LEAHY. So if they are top priority, that means you would have to get the regulations out as soon as possible? I just want to make sure I have my premises correct. Is that a correct premise?

Mr. ELKINS. Well, we are committed to make those decisions this year on those 20 to 25 and then we would proceed as expeditiously as we can during the next few years to set the standards.

Senator LEAHY. That would require getting regulations out.

Mr. ELKINS. That's right.

Senator LEAHY. Am I correct; I understand the staff says they are likely to choose about eight for regulation this year?

Mr. ELKINS. Those decisions have not yet come up to my level or to Lee's. We have a number of decisions to be made. The number could be as high as eight.

Senator LEAHY. It takes about 3 years to develop a standard?

Mr. ELKINS. That's right.

NSPS REGULATORY DEVELOPMENT—FUNDING

Senator LEAHY. But your budget only asks for regulatory development of three new standards?

Mr. ELKINS. In 1986. We looked at that again and we think we can do four with the budget we have in 1986.

Senator LEAHY. That would leave about four unfunded?

Mr. ELKINS. If we do decide to go forward with the decision on as many as eight, that would leave four.

Senator LEAHY. Why couldn't you do the eight?

Mr. ELKINS. We are talking about approximately $1.5 million and about 18 people to fill the gap.

Senator LEAHY. So if you had the money, you could do the eight?

Mr. ELKINS. Yes; that's correct.

Senator LEAHY. Do you have the money to do the four?

Mr. ELKINS. Yes, we have money in the budget to do the four.

Senator LEAHY. All four?

Mr. ELKINS. Yes.

Senator LEAHY. Is the fourth one totally funded?

Mr. ELKINS. Of the eight, four are totally funded; yes.

Senator LEAHY. That's in the budget; that is not reprogramming something else?

Mr. ELKINS. That is in the 1986 budget.

Senator LEAHY. Are you going to list hazardous air pollutants?

Mr. ELKINS. Yes; that's the group of 20 that we are looking at now.

Mr. THOMAS. Senator, let me say overall in the hazardous air pollutant area, we have over the last several months done a complete review of our Hazardous Air Pollutant Program. We have looked at both pollutants that present chronic effects as well as those that present acute effects, episodic releases as well as periodic emissions. We are revising our strategy for dealing with hazardous air pollutants and broadening that strategy. Incorporated in that strategy will continue to be the strong commitment to the 20 or 25 listing decisions. You will see our strategy will be a broader strategy. We are trying to conclude and make decisions in that planning process this month and next month.

Senator LEAHY. Will that require you in any way to slow down new source performance standards?

Mr. THOMAS. I don't anticipate it is going to require us to slow down that commitment that you talked about in our 1986 budget request.

Senator LEAHY. So there won't be any robbing Peter to pay Paul in here?

Mr. THOMAS. Not that I have seen to this point. Now there may well be that kind of decision in 1986 if we look across programs and determine that we should initiate action on a hazardous air pollutant standard over and above what was budgeted for. We may need a determination to reprogram or look at reprogramming some money from somewhere else.

Senator LEAHY. If we keep pushing the deadlines and new source performance standards and hazardous air pollutant standards, is one going to have to yield to the other because of resources?

Mr. THOMAS. Or somewhere else.

Senator LEAHY. Let me ask you this: Are you able to track two areas. One, how are you doing with the deadlines on NSPS; and second, to the extent that you are having to take from other resources to do that?

Mr. THOMAS. We track the deadlines very closely within the Agency.

Senator LEAHY. I understand.

Mr. THOMAS. We have management systems and track them closely within our headquarters and regions and down at the State level. We work hard to do that so we can make both management decisions to correct problems as well as management choices when we have to look at resources in one area and how to deal with it in another.

Senator LEAHY. Can we arrange it without having to add to your problems or your administrative problems, can we arrange to keep me posted to the extent that you are tracking the deadlines and to the extent you are having, if you do have to go into other resources to do that and do it in such a way that even I could understand it? The last part may be the most difficult. [Laughter.]

Mr. THOMAS. I wasn't hesitating because of the last part. We can certainly work with you and your staff, I think, to ensure you are fully informed of that.

Senator LEAHY. I am not trying to become a mini-GAO on this thing.

Mr. THOMAS. I understand.

Senator LEAHY. But budgets are planned here, too, as you said earlier, well in advance. I just would like to know what we are doing on that. On the one hand we get kind of a sense—I don't know if it is satisfaction. We are relieved when we see deadlines going out. As I said I have problems seeing statutory deadlines myself. It happens in a lot of areas, not just EPA, awful lot of areas. Deadlines goes out and no one goes back to see, whether it is done. We need to work out some system that doesn't tie up a lot of your people and mine to track this.

Mr. THOMAS. We will track it and be glad to provide you with the information.

Senator LEAHY. Thank you, Mr. Thomas, and thank you again for accepting the invitation to come up our way. We will wait until after the muddy season so that you have a chance of actually getting back.

Mr. THOMAS. I am looking forward to it.

SUPERFUND—AVAILABLE BALANCE

Senator GARN. Mr. Thomas, the largest increase in your request is the $280 million additional for the Superfund—a 45-percent jump over the fiscal year 1985 level, and nearly double the level provided in fiscal year 1984. This increase, however, is dependent on timely enactment of new excise tax legislation to capitalize the fund.

What is your current estimate of available funding in the fund in fiscal year 1986, from carryover balances and payments, aside from new tax revenue?

Mr. THOMAS. I think without any new tax revenues, our estimates through fiscal year 1986 would be around $200 million available in the fund, although not all will be available at the beginning of the year.

Senator GARN. Are you developing any contingency plans in addition to the potential for either delay or failure to enact revenue legislation?

Mr. THOMAS. Yes, sir, we are.

Senator GARN. For the first time in recent memory, the prepared statement does not include a standard reference for the need to improve on the management and direction program. This must mean the fine words we said about Mr. Goldstein last year is true or you have given up. [Laughter.]

I assume the former.

Mr. THOMAS. Yes, sir; he has done a fine job in managing our research program.

Senator GARN. That is all I wanted to hear you say because I agree. I only made that statement for that purpose of complimenting him for his work in that area.

Mr. THOMAS. Thank you.

SUBMITTED QUESTIONS

Senator GARN. We have some additional questions for your response in writing. I thank all of you for your attendance today.

Mr. THOMAS. Thank you very much, Senator.

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR GARN

CONSTRUCTION GRANTS

Question: Your Budget calls for the continuation of a $2.4 billion funding level for the Wastewater Construction Grants Program. Your statement notes that the reauthorization proposal has not yet been finalized by the administration, but that we can expect further constraints on the use of these funds geared towards a four year phase out.

Please outline the major aspects of these changes or approaches which you are now considering.

Answer: The proposed changes to Title II would phase out the construction grant program over a four year period beginning with an authorization of $2.4 billion in 1986, followed by $1.8 billion in 1987, 1.2 billion in 1988, $0.6 billion in 1989, and none thereafter. All funding would be restricted to completion of ongoing phased or segmented projects. With the exception of 205(g) funds which would be restricted to State management of these projects, all set asides would be discontinued.

Question: The recently completed "Needs Assessment" indicated a huge requirement for additional investment in wastewater treatment facilities into the next century. The Task Force report on the Construction Grants program, also discussed the alternative of a revolving fund to be capitalized over a ten-year period to provide continuing support for wastewater facility needs. Such a proposal has already been introduced in the Senate.

What views do you have on this alternative?

Answer: The principles on which the EPA Task Force recommended State Revolving Funds are valid and important regardless of the sources of the revolving funds. A number of States have established revolving funds, and others appear to be interested even without Federal funding.

FIFRA INDEMNITIES

Question: In the case of cancellations of pesticides like EDB, where your action prohibits the use of any stocks remaining in the manufacturing and distribution pipeline, your Agency must assume the responsibility for disposal of unused stocks and to indemnify those who hold these unusable stocks.

Currently, EPA does not have a reserve or financing mechanism whereby these contingency costs can be addressed on a timely basis. While the decision to cancel must be based on human health and safety and on environmental concerns, there is clearly a significant budgetary impact involved.

What consideration has EPA, or others in the Administration, given to establishing some financing mechanism, like borrowing authority, which can be readily utilized in emergency situations?

Answer: We have not considered borrowing authority.

The desirability of a legislative changes to eleminate the indemnification and disposal provisions of FIFRA are being explored.

ASBESTOS

Question: Last year Congress provided a $50 million Supplemental to initiate the Asbestos in Schools program.

Please describe the activities you have undertaken in implementing this Act, including the program milestones which you expect to achieve during the balance of the year.

Answer: Our principal activities, of course, have been directed toward selecting schools to receive loans and grants for asbestos abatement. We developed an application with instructions, which was sent to all public school districts and private schools as well as the States. Approximately 1,100 applications have been received from private and public school districts on behalf of 4,800 individual schools. Since March 15, when the applications were due from State Governors, we have checked the applications, sent out correction sheets to those applicants who reported incomplete or missing data, and targeted sites for inspection. We plan to visit each site which receives a loan or grant either before an award is made, during abatement work, or after the project is completed. We intend to award grants and loans by June 6 to those abatement projects which address the most serious hazards in schools which lack financial resources to undertake the work.

We have also been involved with a number of activities that are ancillary to the loan and grant program: asbestos abatement contractor certification, asbestos information and training centers, and technical assistance. A pilot State asbestos abatement contractor certification program has been developed in Maryland. Maryland has also developed model specifications and licensing regulations which will be made available to replicate certification programs in additional States. We plan to give grants to 10 to 12 additional States to establish pilot contractor certification programs in the next several months.

Information and training centers have been established at Tufts University, the University of Kansas, and Georgia Tech. Georgia Tech has begun offering training courses designed for school officials, maintenance personnel, and contractors. Courses will start in May at Tufts and in June at Kansas.

Our technical assistance program has two major elements: on-site technical assistance available through EPA regional offices, and publications, principally the document, "Guidance for Controlling Friable Asbestos-Containing Materials in Buildings." We have convened a panel of experts to update this document (the "Bluebook") and expect to complete its revision this June.

ASBESTOS CONTRACTOR CERTIFICATION

Question: A significant concern has been raised over the availability of competent contractors to handle asbestos abatement activities. Because of this, Congress directed that EPA develop contractor certification and training procedures. We understand that a number of States have initiatives in this area, to assure that asbestos abatement work, in fact, reduces asbestos exposure.

What steps is EPA taking to assure that any Federal assistance for asbestos abatement be undertaken only by competent contractors?

Answer: EPA will soon be offering the States a model contractor certification program for adoption either as a State regulation or as a guide for monitoring and oversight. EPA has worked with Maryland to use its State licensing program and contract specifications for asbestos abatement work as a model. We will be giving seed money (approximately $700,000 to 10 to 12 additional States to help them establish contractor certification programs based on the Maryland model. These programs will be operating this summer.

EPA has also worked with the Georgia Institute of Technology to develop a complete training course for contractors. Materials for this course are undergoing peer review. In June, EPA will be training State personnel on how to teach this course so that contractors can be trained at the State level. EPA intends to require that schools receiving loans and grants under the Asbestos School Hazard Abatement Act hire contractors who have specific qualifications, such as evidence of abatement training.

ASBESTOS COSTS

Question: What steps has EPA undertaken to analyze the cost estimates received from schools as well as the cost of asbestos abatement work necessary?

Answer: All cost estimates reported by schools are checked against figures generated by an abatement model utilized by EPA. If the estimates reported by the schools are at great variance with the model estimate for projects of similar size and abatement method, the school estimate is identified for a follow-up inquiry. If the school appears to be eligible after our financial need analysis, the inquiry will most likely be in the form of an on-site inspection.

SAN DIEGO/TIJUANA PROJECT

Question: Last year, Congress appropriated $5 million for the planning and design of a wastewater treatment plant to address sewage requirements generated by Tijuana, Mexico. Recently the Interamerican Development Bank approved a loan for Mexico after an understanding was reached with the U.S. Government on sewer upgrades in Tijuana.

Please describe the nature of these agreements and current plans to utilize the $5 million provided.

Answer: Mexico has decided not to accept the proposal, as contained in P.L. 98-396, to build a treatment plant on the U.S. side of the border. Therefore, the $5 million appropriated for the project remains unobligated.

Recently, Mexico received a loan from the Interamerican Development Bank for the construction of a drinking water system as well as collection sewers for the city of Tijuana. As a condition of the loan, Mexico agreed to construct, at an unspecified future date, two sewage treatment facilities, one east of Tijuana and one on the coast southwest of the city.

Because of Mexico's decision not to support the original proposal to construct a treatment plant, a number of other alternatives are being considered. One proposal involves the construction of an interceptor sewer north of the border which would collect Mexican wastewater generated in East Tijuana, transport the water north of the border in a westerly direction, and return the waste to Mexico for treatment in a facility on the coast southwest of the city as mentioned above. Such a facility would cost approximately $35 million.

However, until a more extensive analysis of various alternatives is completed, the Agency is not in a position to recommend a particular solution to the current problem.

Question: The Committee was concerned that to the extent that the pollution problems experienced in the San Diego area were generated in Mexico, that further funding to address the problem be considered by the State Department and handled in the context of that Agency's budgets.

What consideration has been given to transferring budgetary responsibility for this issue to that Department?

Answer: The International Boundary and Water Commission in the State Department has the responsibility for construction and operation of wastewater treatment facilities under the Treaty of 1909. The role of EPA is to set standards and review and approve construction plans. Despite this difference in roles, there are no current plans underway to transfer budgetary responsibility for this issue to the Department of State.

ASBESTOS WORK GUIDANCE

Question: A difficulty experienced by many school districts has been to assess the nature and degree of hazards posed by asbestos, as well as determining appropriate abatement measures.

Has EPA issued "practical guidance" to schools as was directed in the supplemental conference report last year?

Answer: In January, 1985 EPA distributed Interim Hazard Assessment Guidelines to every school district in the country. This practical guidance was incorporated in the EPA policy statement which laid out our approach to the loan and grant program. We are currently revising our basic asbestos guidance document, "Guidance Controlling Friable Asbestos-Containing Materials in Buildings", to incorporate state-of-the-art assessment and priority setting techniques. These revised guidelines will be out in June 1985.

GAO ASBESTOS REPORT

Question: On March 19, 1985, GAO issued a report which indicated "considerable uncertainty exists about the appropriateness of the actions selected and the quality of the work being done" in asbestos abatement in schools.

What comments do you have on this report?

Answer: We have reviewed the GAO report and believe that several of our programs that are either underway or planned will go a long way toward eliminating uncertainity about what abatement actions to take and the quality of the work done.

First, the Agency is revising the document "Guidance for Controlling Friable Asbestos-Containing Materials in Buildings." The revision will summarize information EPA has learned since 1983 and will include more practical guidance to help schools and other building owners understand how best to control asbestos in their buildings.

Second, EPA has begun operating three pilot information centers which will offer seminars and symposia to wide audiences, and provide state-of-the-art information to building owners, contractors, architects, and others who are involved in asbestos abatement. The center, operated by Georgia Institute of Technology, has begun offering courses. Courses are expected to start in May at Tufts University and in June at the University of Kansas.

Finally, EPA will soon be offering the States a model certification program for adoption either as a State regulation or as a guide for monitoring and oversight. We have worked with Maryland to use its State licensing program and its contract specifications for asbestos abatement work as a model. We will be giving seed money (approximately $700,000) to 10 to 12 additional States to help them establish contractor certification programs based on the Maryland model. These programs will be up and running this summer.

ASBESTOS "ACTION LEVEL"

Question: Questions have been raised on the tolerance level of worker exposure to asbestos established by OSHA.

What actions has EPA taken with respect to establishing some objective "action level" for asbestos exposure for those not engaged in asbestos manufacture?

Answer: The Agency has searched for a generic method which could serve as an asbestos standard. We have examined two major methods. One involved an algorithm which an inspector could use to assess the hazard posed by friable asbestos-containing materials. The other involved air monitoring. Both turned out to be unreliable indicators of potential asbestos problems. Consequently, the Agency decided that case-by-case decisions are more protective of health.

Question: What is the current status of the Section 9 referral issue?

Answer: The Administrator is presently considering the issues concerning the use of Section 9 and Section 6 authorities for asbestos regulation. No decisions have been announced as yet.

AKRON, OHIO RECYCLE ENERGY SYSTEM

Question: In last year's continuing resolution, the Congress appropriated $13 million to assist the refinance of the Akron, Ohio Recycle Energy System project.

What is that status of this refinance plan?

Answer: A $13 million grant award to implement this plan was made to Akron on January 1, 1985.

Question: To what extent do you expect EPA will utilize the Akron Facility for research regarding use of municipal waste for energy?

Answer: Several Federal agencies are contemplating using the facility, including EPA, Energy, and Interior. Schedules for using it are not yet established because the facility is undergoing repairs.

INDEMNITIES

Question: Last year, Congress denied a proposed reprogramming of $7 million from State grants to EDB disposal and indemnification. Earlier this year, the Agency notified the Committee of a redirection of funds which provided $5 million for EDB work in the balance of FY 85. While it is clear that there is a significant Federal responsibility involved, the Committee has not received a detailed estimate of the extent and nature of this requirement.

What is your current estimate of the full requirement for EDB disposal and indemnification for both FY 85 and FY 86?

Answer A Federal Register notice was published on December 21, 1984, establishing procedures for claiming indemnification and for requesting disposal of EDB products. The deadline for submission of claims has passed and many claims have been received. While the claims are still being compiled and reviewed for validity and adequacy of supporting documentation, we expect the total indemnification cost to be approximately $2,500,000.

Contractor bids for disposal of EDB have been received and are undergoing technical and cost evaluations. The cost will not be known until the contract negotiations are completed but we expect the cost to be in the $1,000,000 to $4,000,000 range.

EPA believes that the $5,000,000 of 1984 funds that are available in 1985 may be sufficient to cover all costs.

TOXIC SUBSTANCES STATE ENFORCEMENT

Question: Recently you proposed increasing State toxic substances enforcement efforts by $1 million. How many States currently receive support for toxic substances enforcement activities?

Answer: Five States currently receive support. The additional $1 million will permit ten more States to be funded.

Question: Please describe the manner in which this support is provided to States.

Answer: The funding mechanism is a performance-based cooperative agreement.

Question: What means of evaluation do you have in place to assure that these State enforcement activities achieve the environmental standards and efficiencies required of Federal efforts?

Answer: The principal means of evaluation are mid-year and end-of-year evaluations of the State's progress toward achievement of the approved objectives and outputs described in the cooperative agreement. The guidance for the toxic substances enforcement cooperative agreement program includes an evaluation protocol for evaluating both the quantitative and qualitative aspects of the State's performance.

The system of performance-based cooperative agreements, with mid-year and end-of-year evaluations (results of which are included in negotiations for the following year's agreement), is one which the Agency has used quite successfully for many years in the similar State pesticides enforcement cooperative agreement program.

RADIATION EMISSIONS

Question: Earlier this month, EPA announced a final rule on requiring large uranium mines to install bulkheads to reduce the release of radiation into the air. Do you have an estimate of the costs associated with this rule on those mine operations involved?

Answer: The cost of bulkheading to control radon emissions in the 6 mines which are open at present is estimated to be between 1 cent and 5 cents per pound of uranium oxide produced. Using a mid-range cost figure of 2.5 cents per pound for the present annual production range estimated at between 1,300 to 3,100 tons of uranium oxide per year, the annual cost to industry will be between $65,000 and $155,000 annually.

Question: What impact on the domestic industry do you estimate the rule will have?

Answer: The bulkheading cost should not exceed 1 percent of the $35.00 per pound total cost of producing uranium oxide. All presently operating mines are expected to bulkhead to control radon emissions; the individual cost per mine will be quite small and will not pose an undue economic burden.

Question: What portion of current radon releases can be attributed to the mines covered by the rule?

Answer: This rule applies to large mines which are responsible for the major portion of the total radon emissions from underground uranium mines. A 1979 study of the industry indicated that 95 percent of radon emissions at that time were attributable to mines that would be subject to the standard.

HAMMER CLAUSE

Question: EPA, unlike other Federal Agencies, has a specific mission -- to protect the environment. As such, your activities are oriented towards a fundamental management philosophy...how best to apply scarce human and financial resources to provide the greatest degree of environmental protection.

The growing awareness of new threats to the environment have forced new responsibilities and approaches to address these needs. But the bottom line remains that there are limits to what resources you have available.

The recently enacted RCRA reauthorization adopted what is called a "Hammer Clause". That is, unless EPA can prove that certain land disposal practices are without risk -- they must be banned. This, of course, forces you to devote resources to determine the risk to public health involved, not unlike a statutory mandate.

I recognize that such legislation reflects the difficulty the Agency has had in achieving past deadlines, however, I would like your views on this approach to directing EPA activities.

Answer: The Agency feels that "hammer clauses" are inappropriate. These clauses do not ensure expedient rule development, or ensure that resources achieve the greatest degree of environmental protection. We recognize that Congress has been concerned about our failure to meet some mandated deadlines. However, in many cases the deadlines do not take into account unexpected circumstances. For example, the minimum rule-development times under the Administrative Procedures Act (APA) are often not sufficient. Delays may be caused by the need for more extensive notice and comment under the APA, or by the need to conduct background studies associated with the evaluation of technical and policy alternatives or to ensure consistency with other Agency regulations.

In addition, the mandatory hammers have had a tendency to reduce the Agency's flexibility in developing regulations. These hammers do not allow us to easily accomodate new information or establish innovative cost-effective regulatory strategies. Similarly there seems to be a tendency to either over- or under-regulate the targeted community.

CLEAN AIR ACT - TALL STACKS

Question: I understand EPA will propose revised regulations for tall stacks in June of this year. I am extremely concerned about such revisions because of the serious effects the regulations will have on electric utilities and the coppers smelting industry in Utah.

For example, Utah Power and Light Company constructed a coal fired power plant in Huntington Canyon, Emery County Utah before the 1977 amendments to the Clean Air Act were adopted. By burning Utah's clean, low sulfur coal (.3% or less), the Huntington plant fully meets the Clean Air Act's PSD increment standards and the percentage reduction requirement by washing the coal but without using scrubbers. If EPA proposes revised tall stack regulations without factoring in real life mountainous terrain conditions around the plant, Utah electricity ratepayers will be forced to pay to install new scubbers at the Huntington plant and receive absolutely no environmental benefit for having done so.

It is my understanding that revised regulations will assume that terrain around all smoke stacks is flat and give no flexibility to stacks like UP & L's Huntington Plant or Kennecott's Salt Lake smelter, both which are surrounded by mountainous terrain.

Costs to UP & L and its consumers could exceed $100 million dollars in capital outlays and subsequent operating costs over the life of the plant if no allowance for reality of terrain conditions is factored in to the regulations. This is totally unacceptable to me and to Utahns.

Does EPA intend to make new, revised tall stack regulations based on reality of conditions around stacks, or will it continue to force sources to conduct modeling based on arbitrary, contrived, utopian conditions that do not exist outside the laboratory?

Answer: The revisions that were proposed by EPA on November 9, 1984 (49 FR 44878), were developed in response to an order issued by the U.S. Court of Appeals for the D.C. Circuit in Sierra Club vs. EPA, 719 F.2d 436. We are presently reviewing over 400 comments that were received during the comment period that closed on March 11, 1985, and we expect to promulgate final regulations by June 27.

The extent to which industrial sources may be allowed to consider terrain in determining permissible stack height is one of the issues specifically remanded to EPA by the court and the November 9 proposal specifically solicited comments on this issue. In remanding this issue, the court held that EPA had erred in allowing too much credit for terrain influences and ordered EPA to reformulate its regulation to further restrict such credit. EPA has not yet decided what limits should, in fact, be applied to terrain credit. I would like to assure you, however, that modeling of terrain effects is not a subject EPA takes lightly, and we intend to carry out such modeling in as realistic and representative manner as possible within the constraints of the court decision and our final regulations.

Question: Has EPA conducted an economic impact analysis of such revised tall stack regulations on industry generally and specifically on electric utilities and their consumers? If so, I would like to see the results. If not, I would like the Agency to do so and supply the committee with specific cost estimates.

Answer: At the time of the November 9, 1984, proposal, EPA released a draft economic impact analysis (copy attached). Because of the limited data available that analysis concentrated on the electric utility industry and showed a range of worst case annual cost of the proposed revisions would be between $300 million and $1.4 billion. We are in the process of refining that impact analysis and will include the final analysis in our rulemaking docket. We will also provide you with a copy of the final analysis when it is available.

CLEAN AIR ACT - TALL STACKS

Question: In enacting § 123, Congress directed EPA to set emission limitations based upon "good engineering practice" (GEP) stack height, and defined "GEP" as the stack height that ensures that downwash problems will be avoided. In addition, Congress expressed approval of the pre-1977 EPA definition of GEP as 2.5 times source height.

What weight are you giving to EPA's traditional interpretation of "good engineering practice" (GEP) in this rulemaking?

Answer: In its November 9, 1984, Federal Register notice on the revised stack height regulations, EPA proposed to retain the use of its formula to define in most cases a GEP stack height. The EPA received significant comments on this issue and is now reviewing those comments, but no final decision on the issue has been made.

Question: I understand that certain groups are arguing that EPA should radically change its interpretation of "GEP" to require stringent new source controls at all plants, even if these plants are in compliance with all environmental requirements. What is the basis for this radical new interpretation of the Clean Air Act? Don't you think Congress would have explicitly required you to apply stringent new source control requirements to these sources if it has so intended?

Answer: Two environmental groups, in their joint submittal on the November 9, 1984, proposed stack height regulations, called for EPA to limit credit which a source may receive for its stack until the source has installed the best available control technology. It appears they based their arguments on excerpts from the legislative history and court decisions. The EPA is presently reviewing all public comments received on it November 9 proposal.

Question: What are the economic, energy, and environmental implications of this radical new interpretation of the Clean Air Act?

Answer: As part of its economic impact analysis on the stack height regulations, EPA will include an analysis of the impact of the environmental groups' approach. As previously noted, we will place the final report on the study in our rulemaking docket and we will provide you with a copy of it.

Question: Many utility and industrial facilities in the West are located in areas of hilly or mountainous terrains. I understand that the rules you have proposed will discriminate harshly against such facilities, without any associated benefits. I recognize that you are under certain constraints as a result of a court of appeals decision, but I urge you to exercise the very broad discretion that Congress gave you in § 123 to reduce this purposeless discrimination. I have two questions in this regard.

Your proposals would require sources to ignore high terrain beyond 1/2 mile in conducting fluid model demonstrations to establish GEP stack height, even if terrain beyond 1/2 mile caused severe downwash problems. The legislative history talks of a 1/2 mile cutoff, but only regarding the GEP formula and not GEP demonstrations. What is the basis for the 1/2 mile cutoff? Do you believe that the D.C. Circuit has compelled you to adopt this cutoff?

Answer: Section 123(c) of the Clean Air Act defines GEP, with respect to stack height, as "the height necessary to insure that emissions from the stack do not result in excessive concentrations of any air pollutant in the immediate vicinity of the source as a result of atmospheric downwash, eddies, and wakes which may be created by the source itself, nearby structures, or nearby terrain obstacles (as determined by the Administrator)." In discussing the term "nearby," the House Committee report stated "the committee intends that the term "nearby" be strictly construed, in keeping with the general policy of statutory interpretation favoring strict construction of exceptions and variances. If this term were construed too broadly (that is, to apply to manmade structures or terrain features 1/4 to 1/2 mile away from the source or more), the result could be an open invitation to raise stack heights to unreasonably high elevations and to defeat the basic underlying committee intent" (HR 95-294, page 93). In its 1982 stack height regulations, EPA placed a limit on distance between the structure and the stack when using the formula to determine GEP stack height. However, it placed no such limit on the the distance between the stack and terrain features or structures when using a fluid model or field study to determine the appropriate GEP height. The U.S. Court of Appeal of the DC Circuit in Sierra Club vs. EPA (719 F.2d 436), affirmed the definition of "nearby" as applied in the GEP formulas, but remanded "the failure to apply a nearby limitation to GEP demonstrations." The court instructed EPA "to include new regulations that apply the same 'nearby' limitation to demonstrations as is applied to the formulas." In the November 9 notice, EPA proposed to allow demonstrations to consider the downwash caused by any terrain feature if that feature started within 1/2 mile of the stack. The EPA received a significant amount of comments on this issue and is presently evaluating those comments.

Question: I understand that EPA's atmospheric models for areas with hilly mountainous terrain are only "screening models," and will cause harsh discrimination if applied to set emission limitations for sources in such terrain. How do you plan to implement Section 123 for rugged terrain sources?

Answer: In its November 9 proposal, EPA specifically recognized this issue and solicited comments on it by stating: "Sources in rugged terrain may face serious implementation problems when using current complex terrain screening models to establish emission limitations." Although EPA is currently developing more refined complex terrain models, such models will not be available in time for implementing Section 123. Accordingly, EPA solicited comment on whether allowance should be made for implementation of GEP stack height credit assumptions to complex terrain sources and, if so, how should allowance be made (49 FR 44885). EPA is presently evaluating the comments it received on this issue.

QUESTIONS SUBMITTED BY SENATOR D'AMATO

SCHEDULE OF CLEANUPS AT NPL SITES

Question: Given the pace of clean-up at already-identified Superfund sites, how long do you believe it will take under the pace established by the FY 86 budget request to clean up all of the sites on the National Priority List?

Answer: The National Priorities List (NPL) currently contains 538 sites. An additional 274 sites have been proposed for inclusion on the NPL and are eligible for initial remedial planning activities. If no additional sites are added to the NPL, under current planning assumptions remedial action would be completed at these 812 sites by the end of fiscal year 1991.

However, the Agency anticipates proposing additional sites for the NPL three times a year. Each year, EPA works closely with the States to establish an accomplishment plan which sets the priorities for specific site remedial actions. Decisions about which sites will appear on the accomplishments plan take into consideration such factors as the sites' hazardous ranking scores, extent of the threats to public health, responsible party involvement and the States' preparedness to participate in the responses. A new site may receive a particularly high priority and thus delay completion past 1991 of some sites currently on the NPL. We currently project that the NPL will increase to 1800 sites. However, without knowing how many sites and when they will be added we cannot project when all of the remedial Superfund work will be finished.

Question: Could you work faster if more money were allocated to this function?

Answer: The Agency cannot offer assurances that significantly increased levels of funding would result in significant increases to the pace of the program. Although the Superfund program has grown quite rapidly over its first five years, major obstacles exist which limit both EPA and State Superfund program expansion. These include:

- o Technical Constraints: Depending on the level of cleanup required by a reauthorized Superfund law, and any prohibitions against off-site remedies, landfill capacity will be a critical issue in the years ahead. Presently, there are few double-lined facilities which can accept waste. There may also be regional shortfalls, at times caused by transportation problems.
- o Permanent Solution Constraints: There are some promising technologies on the horizon that provide alternatives to land disposal, such as incineration and chemical and biological stabilization. Although some have proven feasible, their commercial availability remains limited.

- Laboratory Capacity Constraints: Current national laboratory capacity is short of EPA needs, at least seasonally. The agency is working to improve the reliability and responsiveness of our contract labs, but problems remain.
- Managerial Constraints: The pace at which the program is expanding, particularly as more and more sites move through the pipeline to the expensive design and construction phases, makes effective management difficult. In addition to overseeing the complex work at hundreds of sites, EPA must recruit and train professional staff, provide adequate workspace, obtain and maintain necessary equipment, provide administrative and logistical support, and establish the contract capacity needed to handle additional workload.
- Personnel Constraints: In particular, EPA faces a difficult challenge in finding, hiring and retaining people capable of carrying this program out. The agency is competing with the private sector for specialized talent. Often, EPA simply cannot offer the compensation, working environment and incentives that the private sector can for these individuals.

ACID RAIN

Question: There is a great deal of concern on the part of constituents in New York regarding the problem of acid rain, and, frankly, there is a perception that the current EPA research on this subject is simply a means to delay final solutions. How can I assure my constituents that EPA is really serious about solving this problem? When do you expect that the Administration will be ready to support a serious, legislative proposal, based on your research to reduce emissions responsible for acid rain?

Answer: Today acid rain research is probably the most intense and comprehensive environmental research effort of any attempted by this country. Over the last 4 years, we have increased funding of the Federal research program effort, called the National Acid Precipitation Assessment Program (NAPAP), from $17 million to $65 million. For 1986, we have requested funding of over $85 million. Concurrent with this increase in funding, there has been a major effort to better target this research in order to answer the questions most relevant to policy development. An extra effort has also been made to recruit the involvement of top scientists from all over the country to carefully scrutinize research designs prior to their execution. In this way, we believe we can achieve top quality science and still produce results in a timely manner.

The Administration has stated both publicly and before Congress that "when fundamental scientific uncertainties have been reduced, this Administration will craft and support an appropriate set of measures to solve the acid rain problem."

QUESTIONS SUBMITTED BY SENATOR HATFIELD

WATER QUALITY LAB AT NEWPORT, OREGON

Question: Report language accompanying S.J. Res. 356, the Continuing Appropriations Act for 1985 (Rpt. 98-634 pp.22) directed that up to $165,000 be used for preliminary design studies for the construction of a facility at the existing EPA water quality lab at Newport, Oregon. Lab space is currently being leased from Oregon State University and may not continue to be available because of increasing university demand.

What amount of the FY'85 funds have been obligated for such design studies?

Answer: Only travel expenses totalling $2,477 necessary to study feasibility and develop a program of requirements for design have been charged against the $165,000 directed by the Senate to be made available out of EPA's 1985 Buildings and Facilities appropriation. These charges will continue as the in-house effort progresses.

Question: What level of funding would be needed to complete the plans and associated architectural drawings?

Answer: We estimate that it would cost approximately $500,000 to award an architect/engineer contract for design, preparation of architectural and engineering drawings, and preparation of specifications for construction bidding.

Question: What would be the estimated size of the building, cost and timetable for such construction?

Answer: We are developing a program of requirements for design and construction should we eventually decide to build a new laboratory. While we have not completed planning, if we were to build at Newport we would anticipate a laboratory of approximately 25,000 gross square feet costing about $5 million. The construction of such a facility would take about 3 1/2 years from the receipt of funds to occupancy.

Question: When will the construction Master Plan for all EPA facilities be finalized?

Answer: The headquarters and laboratory Master Plan establishing a strategy and priorities for new construction and major building modifications will be completed in October.

Question: How will any reorganization affect possible construction of the Newport facility?

Answer: We have been asked by OMB to submit a management plan that projects the deployment of our laboratory resources in the coming years. This strategy would include our regional, research, and program laboratories. Because of the comprehensive nature of the OMB request, the plan would have to involve a judgement on the future of a laboratory mission at Newport, Oregon. We hope to be able to have a proposal that we can discuss with OMB leadership in about two to three months.

REORGANIZATION OF RESEARCH FROM CORVALLIS, OREGON TO DULUTH, MINNESOTA

Question: EPA is currently considering a reorganization of certain aquatic research activities for Corvallis, Oregon to Duluth, Minnesota. If such a reorganization takes place, what efforts are being undertaken, if any, to retain an aquatic toxicology capability necessary to address unique far west regional problems?

Answer: EPA has very recently approved the reorganization moving certain aquatic research activities from Corvallis, Oregon to Duluth, Minnesota. This reorganization alters neither the freshwater research program of the Agency nor the capabilities which currently exist. All of our research programs, including our freshwater one, are national in nature and not region specific per se. If specific freshwater regional technical assistance is required, however, it will be provided by our Duluth, Minnesota Laboratory where that capability will exist.

Question: Could certain basic toxicology research continue in the west as a "satellite" station to the Duluth Center? If not, what capabilities will exist at Duluth to monitor and manage toxicology studies unique to anadromous fish species in the west?

Answer: A satellite station to the Duluth laboratory will not be maintained as a separate entity because the functions of the group involved in this reorganization and transfer are intended to be closely integrated with Duluth's ongoing activities.

QUESTIONS SUBMITTED BY SENATOR ABDNOR

ASHAA MODEL CONTRACTOR TRAINING AND CERTIFICATION PROGRAM

Question: Mr. Thomas and Dr. Moore are both aware of my keen interest in the implementation of the Asbestos School Hazard Abatement Act of 1984 (ASHAA), of which I was the prime sponsor. Thus far, I am very pleased with the way in which EPA is moving forward to administer this new program. I understand the agency expects to make awards to eligible school districts on June 6 — in accordance with the statute.

Dr. Moore, while I am aware that you do not expect to be able to provide an analysis of the need for additional abatement assistance funds until the middle of May, I believe the subcommittee would find of interest your thoughts based upon the data you have accumulated to date.

Answer: Since March 15, 1985, the deadline for States to forward ASHAA applications to EPA, we have been reviewing and verifying the data reported to EPA by the LEAs that applied for funds. We have received about 1,100 applications from public school districts, private school systems and individual private schools. Those applications contained funding requests for over 4,800 schools and 8,300 individual abatement projects. About 1,200 of these projects were in hazard category 1, the highest priority in EPA's hazard ranking system.

EPA regional personnel are presently inspecting about 730 projects in 500 schools around the country. These inspections are to verify the accuracy of the hazard information reported by the LEAs. Inspections will be completed by Friday, May 3rd.

The total cost of all projects for which EPA recived ASHAA applications is approximately $550,000,000. In the top three priority hazard categories, the project costs totaled about $380,000,000. We are presently assessing the financial need of LEAs who have projects in the top three categories to determine what portion of those projects are deserving of ASHAA funds.

We expect to complete our decision making awards and notify grant and loan recipients no later than June 6, 1985. We are confident the grant and loan funds will be targeted at the most serious asbestos hazards in the most financially needy schools.

Question: I am also pleased to note that EPA is moving forward with the development of a model contractor training and certification program, vis-a-vis ASHAA. This program is vital to ensuring that asbestos abatement activities will be conducted safely and it is also an important first step in addressing a serious problem contractors are facing -- that of obtaining adequate insurance coverage.

Will you please provide the subcommittee with your thoughts concerning the need for and the status of the model program?

Answer: As we are currently planning it, a model contractor certification program will be offered to the States for their adoption either as a State regulation or as a guide for monitoring and oversight. We have worked with Maryland to use its licensing program as a model. They've written up model specifications and licensing regulations. They will be presenting these materials to other States in meetings scheduled this spring and summer in San Francisco, Atlanta, and Boston.

We will be giving seed money to 10 to 12 additional States to help them establish contractor certification programs based on the Maryland model. These programs will be operating this summer.

CHRYSOTILE ASBESTOS FIBERS

Question: Recently, the Detroit News ran a series of articles on the issue of asbestos and the need for abatement. Included in this series were comments made by Mr. Malcolm Ross, a geologist with the USGS, questioning the extent to which the presence of "white," or chrysotile, asbestos poses a hazard to human health. Would you please provide the subcommittee with your thoughts concerning the health risks associated with inhalation of chrysotile asbestos fibers?

Answer: Animal studies have consistently shown chrysotile to cause lung cancer, asbestosis, and mesothelioma. Much human evidence also indicates that all the commercial fiber types, including chrysotile, are capable of inducing lung cancer, mesothelioma, and asbestosis.

These conclusions are supported by the three major review efforts recently conducted -- by the Chronic Hazard Advisory Panel on Asbestos of the Consumer Products Safety Commission, the National Academy of Science Committee on Nonoccupational Health Risks of Asbestiform Fibers, and The Royal Commission on Matters of Health and Safety Arising from the Use of Asbestos in Ontario.

The determination of the relative potency of the various kinds of asbestos in the induction of tumors in people has been complicated due to the long period of latency of tumor development and the fact that many of the products have been composed of mixed asbestos types or the workers have been exposed to various types during their employment history.

Human populations under study began exposure 30 to 60 years ago. Since then manufacturing and safety methods have changed. And more importantly, since it affects the reliability of the studies, exposure was often monitored inconsistently or not at all. Where, it was monitored, the methods used leave much to be desired as far as accurately measuring fibers of concern. In short, human studies require much guess work about exposure conditions. In addition, the studies vary in the completeness and length of follow-up of exposed populations and in selection of comparison populations (as controls). These factors have an appreciable impact on the rate of disease reported. For this reason, it is difficult to get a clear picture of the relative potency of the different types of fibers in the induction of lung cancer and mesothelioma in humans.

However, the CPSC, NAS, and Royal Commission agree that human and animal data indicate that the major commercial asbestos types (including chrysotile) are capable of causing lung cancer, mesothelioma, and asbestosis. As far as a difference in potency among the fibers is concerned, in brief, the NAS and CPSC found no convincing evidence of a difference and therefore chose to treat them as equivalent for purposes of developing risk estimates. The Royal Commission believes that chrysotile is less potent. That position is based on evidence related to the tendencies for the other fibers "to be more likely to conform to the most hazardous length and diameter and secondarily because they are more likely to become airborne and hence to be respirable." The Royal Commission relied very little on epidemiology or animal studies in this finding.

Question: In your view, are children at greater risk of developing the life-threatening diseases associated with exposure to asbestos?

Answer: The risk of mesothelioma rises rapidly with time from the onset of exposure for at least 50 years. Because of the rapid increase of risk with time, the lifetime effect of exposure in childhood is likely to be much greater than if exposure begins in adulthood. Some concern also exists because of the higher respiration rate shown by children. This would increase the intake of fibers compared to adults.

QUESTIONS SUBMITTED BY SENATOR PROXMIRE

AIR/BHOPAL

Question: After the tragedy in Bhopal, India, many labor and environmental groups criticized EPA for lack of attention to hazardous substances especially under the Clean Air Act. How did the FY1985 RCRA reprogramming affect the studies of 40 hazardous air pollutants under review for regulation?

Answer: Reprogramming for RCRA had no affect on the studies of air toxics under review for regulation.

Question: Why, when only 5 of these pollutants have completed studies, is EPA cutting the hazardous air pollution budget? What are the arguments to support these cuts? How much longer will these substances remain "under study"?

Answer: There have been no cuts in the hazardous air pollution budget. In fact, the FY1985 budget reflects an increase of 10 positions for air toxics. With the addition of the RCRA air resources, the FY1985 and FY1986 budgets show significant increases in the program to regulate toxic air pollutants, both in headquarters and Regions. The Agency remains committed to make decisions on 20-25 potential air toxics by the end of 1985. We anticipate making 8-12 decisions per year after 1985.

Question: When will you issue a final hazardous spill protection plan as required by the 1972 Clean Water Act?

Answer: On September 1, 1978, the Hazardous Substance Prevention Regulations (40 CFR 151) were published as a proposal in the Federal Register. Comments on the proposed rule were considered, but the final rule was not promulgated. The proposed regulation focused on preventing the release of 297 hazardous substances into navigable waters, pursuant to section 311 of the Clean Water Act. EPA is reconsidering its proposal in light of new information, such as the recent incident in Bhopal, India, involving the release of methyl isocyanate. EPA has underway the development of a strategy, which will include the consideration of options for preventing releases of hazardous substances into the environment. The strategy will address prevention of releases into navigable waters, and will consider the 297 hazardous substances designated pursuant to the Clean Water Act.

Question: When will you issue the National Hazardous Waste Contingency Plan designed to prevent a release of hazardous waste?

Answer: In February 1975 the National Oil and Hazardous Substances Contingency Plan was published in the Code of Federal Regulations. The purpose of the Plan was to explain the response powers and responsibilities for oil and hazardous substances established by section 311 of the Clean Water Act as amended. The plan was significantly revised to account for the new authorities of the Comprehensive Environmental Response, Compensation and Liability Act of 1980 and was published as a regulation in the Federal Register in July 1982. Additional revisions to the plan were proposed in the Federal Register on February 1985.

LIMB

Question: EPA is testing LIMB, (Limestone Injection Multistage Burners, a cheap method of sulfur pollution removal), on wall-fired boilers only; what about the 50% which are tangential boilers?

Answer: EPA is continuing LIMB research on tangentially-fired utility boilers. The tangentially-fired boiler type represents forty-five percent of the existing coal-fired boiler population in the U.S. For tangentially-fired boilers we are conducting pilot/prototype research to study optimum sorbent injection and mixing; and, continuing generic research (i.e., applicable to both wall and tangential boilers) on improving SO_x capture efficiencies.

Question: Instead of creating a new tangential test site in the U.S., which may cost $20 million, why not cooperate with Canada by shipping Ohio coal to their experimental site in Saskatchewan?

Answer: EPA does not plan to conduct a full-scale demonstration of the LIMB technology on a tangentially-fired utility boiler. Rather, the focus of EPA's work on tangentially-fired boilers is on prototype testing and evaluation of the LIMB technology on a small tangentially-fired boiler (20-40 Megawatts).

EPA has maintained contact with the research program conducted by Saskatchewan Power and Combustion Engineering Canada. We will continue to monitor this research program and the results of their efforts.

It should also be noted that the research conducted by Combustion Engineering Canada is performed on a boiler designed to burn a lignite coal. An Ohio bituminous coal is not recommended for a boiler designed for lignite. Boiler design differences would result in operational inefficiencies (fouling/slagging).

Question: Why not have Drew Lewis head this effort, increasing both the progress and cost-effectiveness of research?

Answer: As noted above, we do not plan to conduct a full-scale demonstration of the LIMB technology on a tangentially-fired boiler.

RADIATION

Question: Why is EPA eliminating funding for its research on the health effects of non-ionizing radiation, especially since your own Science Advisory Board came out with a strong recommendation for continuation of the research?

Answer: In 1984 EPA published a report entitled Biological Effects of Radiofrequency Radiation. The Agency's Science Advisory Board (SAB) concluded that the report provides a scientifically defensible basis for development of radiofrequency radiation protection guidance. The SAB feels that further research contributions in this field are highly desirable. EPA agrees that such research would be desirable given unlimited resources; however, since sufficient information appears to be available for development of guidance, EPA must realistically tailor its research priorities to address regulatory needs with greater potential for health protection.

Question: Will EPA abandon research which may indicate the hazards emitted from ELF in northern Wisconsin? Who will do this research?

Answer: EPA has conducted a set of radiation health effects studies in the North Central section of the U.S. Further work on these projects will be discontinued with the completion of the health effects radiation program. Any Federal research in this field, either microwave or Extremely Low Frequency (ELF) will be conducted or supported by the Department of Energy or the Department of the Navy.

LEAD

Question: EPA estimates that 17 percent of catalytic converters are tampered with, allowing increased NO_x and hydrocarbon emissions. What is EPA doing to see that this is corrected -- is there a strategy?

Answer: Tampering involving the catalytic converter including fuel switching is 19 percent. A tampered or removed converter causes about four to eight fold increases in HC and CO and about three fold increases in NO_x in the newer three way converters.

EPA has a four part strategy to combat tampering. First and foremost, we recently issued regulations drastically lowering the amount of lead allowed in leaded gasoline. This will have the effect of increasing the cost of production of leaded gasoline and we hope it will shrink the present price differential between leaded and unleaded. This should take away most of the incentive to fuel switch. Fuel switching is by far the greatest concern regarding catalyst tampering.

Second, EPA inspectors perform searches of repair shops, auto maintenance facilities, and fleets of vehicles. Those facilities who are found in violation are sent Notices of Violation and an EPA field office attorney attempts to settle the case. Should this fail, cases are promptly filed with the Department of Justice.

Third, EPA is actively encouraging state and local governments to institute anti-tampering and anti-fuel switching vehicle inspection programs to append to their periodic inspection maintenance or safety inspection program. Sixteen areas currently have large scale vehicle anti-tampering programs and more are anticipated.

Fourth, wide-spread public relations material is being circulated both by EPA and affected parties to demonstrate the personal financial consequences of tampering and fuel switching.

The result of this four part strategy should be the replacement of tampered converters and the reduction in the rate of newly tampered ones.

PESTICIDE REREGISTRATION

Question: One of the biggest defects in the pesticides program is the failure of EPA to reregister pesticides in use before 1972 in order to bring them up-to-date with modern scientific knowledge.

How many reregistrations is EPA completing per year? Two years ago you said that you would do 35 per year. When will you be done?

Answer: The mechanism used for reregistration is the Registration Standard. By the end of 1985 EPA will have issued 115 Registration Standards. The program has reached a steady state review rate of 25 reviews per year, which it plans to continue in 1986.

The Agency predicted two years ago that it could possibly achieve 35 reviews per year. However, the chemicals being reviewed at this time are those with the heaviest domestic usage, reflecting multiple use patterns. Review of these multi-purpose chemicals is more time-consuming than was originally anticipated, and the higher review rate has not been achieved. We believe that 25 reviews per year is a more realistic estimate.

To ensure that the key data are available when we reevaluate a pesticide, we have accelerated the pace of the existing Data Call-In program for chronic health effects data on food use chemicals. These key health data include chronic toxicity studies, two year cancer studies, studies to assess the potential to cause birth defects, and fertility and reproductive studies that span two generations. By the end of this fiscal year, we will complete issuing this data requirement for all food use chemicals. Data call-in requirements for 226 of these chemicals have been issued in the last two years. In addition, a special data call-in was issued in 1984 to require environmental fate data on over 100 pesticides preliminary identified as potential groundwater contaminants. A third major call-in program is now being developed to ensure that the Agency has precise information on the chemical composition of registered pesticides.

The Agency takes its reregistration responsibility seriously and expects pesticides registrants to be equally committed to carrying out their responsibilities. We have initiated a new data call-in project in which registrants of 31 non-food use pesticides are themselves identifying and then filling any significant data gaps. I hope this approach will work so that it may be expanded in the future.

We have begun to closely monitor each registrant's progress in meeting its commitments to develop data. Basically, when a registrant makes a commitment to develop needed data by a certain time, we expect the commitment to be kept; extensions will be granted only when the schedule has been delayed for reasons beyond the registrant's control. When a registrant fails to keep these commitments, we are exercising our authority to suspend its product registrations until the data are submitted.

Through these call-ins, the Agency is identifying some chemicals which are no longer in production and which registrants are no longer willing to support. Thus, we expect that the total number of chemicals which will utlimately require review is not the 600 which are currently registered but, rather, a number more in the 450-500 range. At the rate of 25 reviews per year, the Agency would complete the initial review of all active ingredients in the late 1990s. Data determined to be missing in the first-round review will be required to be submitted.

The composite effect of these various efforts will result in the submission of a large amount of new data on these older pesticides. The first large influx of data is expected this year. To ensure that the Agency receives all the data it needs and to ensure that we can keep abreast of the most significant of the new data, we will be issuing a final interpretive rule this spring. This rule will emphasize and clarify every registrant's responsibilities for submitting adverse effects data to the Agency promptly. We will also propose a new rule that requires registrants to highlight those portions of these data which meet certain specified risk criteria.

FIFRA

Question: At a recent House hearing, Assistant Administrator Moore, you admitted there were serious shortcomings with the existing FIFRA. How do these shortcomings hamper your ability to regulate pesticides safely and acquire the most up-to-date scientific data?

Answer: The point of the testimony at the recent reauthorization hearings on the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA) was not at all to the effect that the current Act is inadequate to regulate pesticides properly. In fact, the testimony stated that FIFRA is a fundamentally sound environmental law. FIFRA provides effective authority to require scientific data needed to make sound decisions. Moreover, the Agency has made significant progress in the last 18 months with improving the timeliness, scientific soundness and provisions for public access to the pesticide decision process, through administrative changes.

Question: How would you change the Act?

Answer: There is room for improvement, however, and we are exploring the need for changes in the program. The Administrator's Pesticide Advisory Committee (APAC) has suggested areas of legislative changes that should be considered. In addition, EPA has also considered administrative changes. APAC has also suggested changes to improve efficiency of the pesticides programs.

Question: Why was your draft bill squelched by OMB?

Answer: Our draft bill was not approved by the Administrator and never sent to OMB for review.

REGULATION OF DANGEROUS PESTICIDES

Question: Registration, special review and tolerance functions have all been cut. Won't this jeopardize your ability to deal with regulation of the most dangerous pesticides?

Answer: Resources in the Registration, Special Registration and Tolerance program elements have been reduced slightly in 1986 to give more emphasis to the review of existing chemicals. The Special Review program is actually receiving a substantial increase in resources in 1986.

In fact, greater efficiency in handling registrations and tolerance functions has provided the opportunity to make resource adjustments to reflect other priorities. We do not believe that there is any jeopardy in our ability to deal with regulation of the most dangerous pesticides.

RESOURCES REQUIRED FOR A PESTICIDES MONITORING PROGRAM

Question: What is the allocation and what is the staff projection for a monitoring program for pesticides?

Answer: The total estimated 1985 costs of Pesticide monitoring activities are 45.4 FTE's (Full Time Equivalents, which are Agency staff work time commitments, i.e., person years) and $2.8 million in extramural funds. Monitoring activities for 1986 are expected to remain at the same level as in 1985, i.e., 45.4 FTE's and $2.8 million extramural.

DATA CALL-IN

Question: Why is the data call-in program so under-staffed?

Answer: We believe that the data call-in program is adequately staffed.

At the current level of staffing, we expect to complete the call-in of chronic food use data in 1985. We will then shift the emphasis of the program to the call-in of key exposure and product chemistry data, beginning in 1986.

The data call-in program notifies registrants of requirements to fill data gaps which can be identified prior to the initiation of Registration Standards review and attempts to obtain their concurrences to provide the needed data.

The full call-in of all required data for each chemical, on the other hand, requires the in-depth review of the properties and uses of each chemical that takes place during the establishment of Registration Standards.

CHEMICAL SPECIAL REVIEW

Question: How many chemicals are in special review?

Answer: There are 18 chemicals in special review. They are listed below.

Chemical	Initiation Date 1/	Time in Review 2/
Sodium Fluoroacetate	12/1/76	8 years, 4 months
Cadmium	10/26/77	7 years, 4 months
Ethylene Oxide	1/27/78	7 years, 3 months
2,4-5 Trichlorophenol	9/15/78	6 years, 7 months
Coal Tar (non-wood uses)	10/18/78	6 years, 6 months
Creosote (non-wood uses)	10/18/78	6 years, 6 months
Inorganic Arsenicals (non-wood uses)	10/18/78	6 years, 6 months
Pentachlorophenol (non-wood uses)	10/18/78	6 years, 6 months
Captan	8/18/80	4 years, 8 months
Dicofol	3/21/84	1 year, 1 month
Amitrole	5/15/84	11 months
Aldicarb	7/11/84	9 months
Daminozide	8/18/84	8 months
Captafol	12/9/84	4 months
Dinocap	1/9/85	3 months
TPTH	1/9/85	3 months
Alachlor	1/9/85	3 months
Cyanazine	4/10/85	14 days

1/ Date of publication of PD-1 announcing the initiation of a special review

2/ As of April 30, 1985

Question: What is the length of time they have been in review?

Answer: The amount of time each chemical has been in review is reflected under the third column in the previous table. This is determined by the difference between the initiation date, which is the date of publication of the Position Document-1, and the present time. The next table summarizes the latest action on each chemical.

Chemical	Latest Action
Sodium Fluoracetate	° PD 2/3 published on 11/4/83. Science Advisory Panel (Compound 1080) report on PD 2/3 issued on 7/3/84.
Cadmium	° PD 1 published on 10/26/77. We expect to publish the PD 2/3 in 4th quarter of FY-85.
Ethylene Oxide (EtO)	° Label changes requiring modification to workplace design and practice for sterilization of equipment and supplies used in hospitals and health care facilities signed on 3/30/84 and retracted in June of 1984 because we determined that OSHA has jurisdiction over these activities. EPA is preparing label requirements for EtO uses that are not covered by OSHA.
2,4-5 Trichlorophenol	° PD 2/3 published 9/15/78. Section 3(c)(2)(B) letter to be mailed out soon requesting up-dated Confidential Statement of Formula and an analysis for dioxin contamination.
Coal Tar	° PD 2/3 (wood uses) published on 2/19/83; PD 2/3 (non-wood uses) published on 8/22/84.
Creosote (non-wood)	° PD 2/3 published on 8/22/84. PD-4 currently scheduled for 3rd quarter of FY-85.
Inorganic Arsenicals (non-wood)	° Dietary exposure analysis and residue data completed. PD 2/3 currently scheduled for 4th quarter of FY-85.

Pentachlorophenol (non-wood)	° PD 2/3 completed (1st quarter of FY-85) and PD-4 scheduled for 4th quarter of FY-85.
Captan	° We expect to issue PD 2/3 in May 1985.
Dicofol	° PD 2/3 published 10/10/84 and PD-4 scheduled for 4th quarter of FY-85.
Amitrole	° PD-1 published 5/15/84 and PD 2/3 scheduled for 4th quarter of FY-85.
Aldicarb	° PD-1 published 7/11/84 and PD 2/3 scheduled for 4th quarter of FY-85.
Daminozide (Alar)	° PD-1 published 8/18/84 and PD 2/3 scheduled for 3rd quarter of FY-85.
Captafol	° PD-1 published 12/9/84.
Dinocap	° PD-1 published 1/9/85.
TPTH	° PD-1 published 1/9/85.
Alachlor	° PD-1 published 1/9/85.
Cyanazine	° PD-1 published 4/10/85.

DATA DISCLOSURE PROGRAM

Question: Has EPA been fulfilling responsibilities under right-to-know and data disclosure programs?

Answer: The office of Pesticide Programs (OPP) is fulfilling its responsibilities under the Freedom of Information Act, subject to the data disclosure instructions and procedures required by Section 10 of the Federal Insecticide, Fungicide and Rodenticide Act.

OPP currently has a backlog of FOIA requests for data because it was unable to comply with all requests until after July, 1984, when the Supreme Court removed an injunction against the release of test data (Monsanto vs EPA). OPP is working to reduce this backlog and process the requests without unnecessary delays.

CEQ REPORT ON LONG-TERM RESEARCH

Question: The Council on Environmental Quality recently issued a report on long-term research and development with the theme that much greater efforts are needed to understand long-term trends and ecological processes. It sees great future costs incurred from present piece-meal approaches to environmental problems. How is EPA's R&D budget in meeting these goals?

Answer: The findings and conclusions of the CEQ Report are consistent with the overall thrust of our research program, and are supported by our FY 1986 budget request. Many of the research activities recommended in the Report, such as biotechnology, human exposure, epidemiology and groundwater, are major initiatives in our FY 1986 budget request. Specifically:

- The panel convened by CEQ recommended more study into the health and environmental consequences of genetically engineered organisms. We fully agree, and our 1986 budget request of $4.6 million for biotechnology research represents an increase of $3.1 million over 1985.

- Our total toxics and pesticides research budget increases by 38 percent in 1986 to $50.0 million, including an expansion of epidemiology and exposure studies as the CEQ Report recommends.

- The CEQ panel supports greater resources for improving quantitative risk assessment techniques. Our 1986 budget requests $69.3 million for health and environmental risk assessment research. Included are increased resources to support our new Risk Assessment Forum, which was created to resolve scientific questions involving the Agency's risk assessments and to oversee the development of guidelines for conducting various types of risk assessments.

- The Report urges greater attention to gathering information about the risks facing groundwater supplies. Our 1986 budget requests $24.3 million for groundwater research, a 14 percent increase over 1985.

- The Report also recommends the integration of research findings into plans for monitoring and remedial action at hazardous waste sites. Our 1986 budget contains an $8.5 million increase (17 percent) in hazardous waste studies, a significant component of which is in monitoring and engineering useful for remedial actions.

OFFICE OF EXPLORATORY RESEARCH

Question: CEQ sees the exploratory research program of vital importance to long-term R&D. Why is this program being cut by more than 1/3 in FY-86?

Answer: The reduction reflects the need to focus our long-term research resources on those program areas having the highest relevance to our regulatory programs.

- The program will continue to provide funding for the university-based Centers of Excellence, which conduct long-term research in areas such as control technology and ecology.

- However, the Centers program is being reviewed, and this process may result in a reallocation of the program's budget, now shared by eight Centers. The review will address the continuing need for EPA support of long-term research in all eight areas.

- o In the Exploratory Grants Program, resources will be focused on ongoing studies which are of highest relevance to the Agency's regulatory programs.

In addition, the overall research and development budget includes long-term research activities apart from those managed by the Office of Exploratory Research, many of which received increases in the 1986 President's Budget. Among these are epidemiology, structure-activity relationships and Acid Rain.

Finally, the Agency has issued a new policy directing ORD to set aside up to 20% of its resources for long-term research, and to insulate those resources from budget redirections whenever possible.

EPA RESEARCH PRIORITIES

Question: While EPA's FY 86 R&D request is increased by $19.4 million over FY 85, this increase comes from only 3 programs: research into acid rain, hazardous waste and toxics and pesticides. All other research is actually getting large cuts. How do you justify cuts in other programs?

Answer: First, it is not true that all other research is sustaining large cuts. Resources were also increased in the Water Quality and Superfund media.

The four research areas which have been substantially reduced are Limestone Injection Multi-stage Burners (LIMB), indoor air, exploratory research, and radiation health effects. These decreases are justified for a variety of specific reasons described in the budget justification document but several general themes do emerge. Generally, these efforts have been reduced because research efforts are nearing completion, or a federal role is no longer necessary. Furthermore, the Agency must focus its research resources on areas which will yield the most substantial benefits.

Question: How do you answer critics who state that EPA research shifts from one crisis to another without any long range plan?

Answer: In its annual budget requests, EPA's Office of Research and Development (ORD) presents a research program that responds to the leading environmental issues that face the nation. Inevitably, there will be some changes in the budget from year to year as new problems emerge and progress is made on addressing existing ones. The annual budget requests are prepared, however, within the context of five year strategies that are developed jointly by ORD and its client offices within EPA.

MULTI-YEAR RESEARCH FUNDING

Question: What are the problems that the Office of Research and Development faces with single year appropriations?

Answer: The R&D appropriation, which supports the vast majority of the Agency's extramural long-term research program, is a two-year appropriation. Our experience indicates that a two-year appropriation structure offers the Agency sufficient flexibility to support long-term research projects through their completion, ensuring that research resources are used efficiently.

Question: What would be the benefit for medium and long range research from multi-year research funding?

Answer: As indicated above, we believe that the present R&D appropriation structure supports the effective utilization of long-term research funds.

SUPERFUND

Question: Despite increasing burdens on EPA resources stemming from increasing Superfund responsibilities, funding has not gone up for other agencies which assist EPA with implementing the program. Why is this?

Answer: The activities of other federal agencies are divided into two basic categories in the budget process. The first category includes those activities which are episodic in nature and taken in direct support of specific spill or site response actions. With the exception of the Federal Emergency Management Agency, these actions are financed on a reimbursable basis from the funds appropriated to the Hazardous Spill and Site Response program.

The funds provided under the interagency budget are for the second category of activities and provide support for basic management needs and ongoing non site-specific responsibilities authorized by CERCLA and Executive Order 12316. These funds also support Department of Justice criminal and civil litigation for specific sites. The 1986 interagency budget request does contain an increase of $2.2 million for the Department of Justice. This increase is directly related to the projected overall growth in EPA's Superfund enforcement program. In the case of the other agencies, a review of past obligations and projected needs indicated that their non-site specific activities could be carried out at 1985 funding levels.

Question: Could these agencies, like Interior, help take up the slack?

Answer: The Administration's Superfund reauthorization proposal does not project major increases in program support or basic management funding needs for EPA or other Agencies. Instead, projected increases above the current year are due almost exclusively to site-specific funding needs as more and more projects reach the construction phase of site cleanup. The cleanup effort is not a major responsibility of other Federal Agencies, although in specific cases they may be involved in the work.

Each year as part of the budget development process, EPA reviews the proposals of the other Agencies to determine the most effective use of Trust Fund monies. Decisions made during this process include determinations of respective responsibilities for the upcoming budget year. (We are currently reviewing other Agency responsibilities in developing our fiscal year 1987 budget request and while adjustments to current responsibilities may occur, EPA does not expect that these adjustments will significantly affect overall Superfund funding needs.)

SELECTED EPA ACTIVITIES

Question: I have an internal EPA list of 35 priority activities for FY85. I am curious as to how many will be achieved. While many of these objectives are very vague, I'd like to pick a few and ask how you are doing:

5. Implement an acid deposition strategy.

Answer: EPA is carrying out an acid rain program in three parallel areas. First, we have significantly expanded and accelerated the acid rain research program, placing particular attention on the key scientific uncertainties that prevent making a control decision at this time. Second, EPA continues to make the review of acid rain policy an active and ongoing process with a specific commitment to communicate the product of its efforts to key decision makers in the Administration and in Congress, as soon as appropriate. And third, even though no decision has been made for the need for such a program, EPA has initiated discussion with the States to identify implementation issues which might be associated with a major acid rain program.

8. Develop and implement a ground-water protection strategy.

Answer: The following are among the key activities initiated during the past year.

° Strengthening EPA's Organization

-- The Ground-Water Protection Strategy was officially issued in August 1984.

-- The Office of Ground-Water Protection (OGWP) was established at Headquarters in April 1984 and counterpart offices in the Regions were established.

-- A Ground-Water Oversight Committee has been established, chaired by the Assistant Administrator for Water and including the Assistant Administrators for Research and Development, Pesticides and Toxic Substances, and Solid Waste and Emergency Response as well as the Regional Administrators from Regions I and VIII. This committee provides policy oversight for the work of the OGWP and for the Agency's ground-water protection efforts.

-- An Interagency Group on Ground Water has been established composed of representatives of the Federal agencies which have ground-water protection and related responsibilities to provide a forum for exchange of information concerning ground-water activities.

-- A consortium of universities headed by the University of Oklahoma is being supported by the OGWP to conduct a series of symposia on public policy questions related to ground-water protection.

° Enhancing State Level Institutions

-- $7 million was made available in 1985 for Ground-Water Protection Grants to States and selected territories under Section 106 of the Clean Water Act. Over 40 grants have been awarded.

-- OGWP has completed a report on State ground-water protection programs prepared in cooperation with the Regions and States. It will for the first time describe State ground-water programs and will be updated periodically.

-- A Liaison Group on Ground Water has been established to provide exchange of information on ground-water programs between EPA and State and local officials. The group, co-chaired by EPA and the National Governors' Association, consists of representatives from national organizations.

° Issuing Guidelines for EPA Decisions

-- Office of Ground-Water Protection has established a work group composed of relevant Headquarters program offices, Regional representatives, and representatives from the States of Connecticut, New Mexico, and Florida as well as from Long Island and the U.S. Geological Survey to develop guidelines to implement the three-tier classification system cited in the Strategy. A notification of the guidance will be published in the Federal Register in late fall. After a review of public comment, the final guidance will be published in winter of 1986.

-- OGWP has developed and undertaken an implementation plan involving key programs throughout EPA to place into effect key elements of the Strategy in addition to other work of the Agency that we believe especially pertinent.

-- A new unit has been established in the Office of Pesticide Programs composed of ground-water experts to evaluate the environmental fate of pesticides for registration and re-registration, and to apply leaching models and use hydrogeologic data to assess the impact of certain pesticides on ground water.

-- The Administrator has created a Pesticides in Ground Water Work Group, co-chaired by the Deputy Director of OPP and the Director of OGWP, to review the Agency's efforts to prevent pesticide contamination of ground water and EPA responsibilities for remedial action when contamination occurs. The Task Group will develop an agencywide strategy, which will use all EPA authorities to increase the protection we are able to offer.

-- A Task Group has been created to assist the Agency in developing a Ground-Water Monitoring Strategy. At a Monitoring Workshop in April, 50 leaders from State and local government, business and industry, and the environmental and academic communities were asked to provide the Agency with a consensus of advice on ground-water monitoring objectives and how Federal, State, and local governments and the regulated community can work together in their implementation. A final strategy should be completed this summer.

-- EPA has created a committee of outside experts to assess EPA's ground-water research efforts and recommend future research activities and areas of emphasis.

-- A consortium of universities headed by the University of Oklahoma is being supported by the OGWP to conduct a series of symposia on public policy questions related to ground-water protection.

° Addressing Sources of Contamination

-- Leaking underground storage tanks are a major unaddressed source of ground-water contamination highlighted in the Strategy. Since the Strategy was issued, the 1984 RCRA Amendments (PL 98-616) were passed, creating a new Federal regulatory and grant program which EPA is launching.

-- A new study of pesticides in drinking water drawing from ground water, now in the design phase, will provide a national picture of the extent of the problem.

-- Office of Pesticide Programs (OPP) recently completed calling in data on 120 currently registered pesticides for which information regarding their potential to leach into ground water is incomplete.

11. Develop a list of priority chemicals and begin implementing plans across Agency programs to control them.

Answer: The items referred to in the question were part of an early draft version of the proposed 1985 Agency Priority Activities list. The final version of that list, published February 4, 1984, did not contain item 11 on the draft list.

However, the Agency has identified, in the FY1986 President's Budget submission, those chemicals EPA will give priority consideration for possible regulatory action under the Toxic Substances Control Act. Some of those chemicals include; asbestos, glycol ethers, MBOCA, 4,4'-MDA, and 1,3 butadiene.

17. Develop new NESHAPS consistent with the air toxics control strategy and based upon toxic pollutant decisions made in FY 84.

Answer: We are beginning to implement the Federal component of the air toxics strategy by focusing our efforts on high incidence situations, particularly coke ovens, woodstoves, chromium and treatment, storage and disposal facilities.

Questions Submitted for the Record by Senator Chiles

TEMIK CONTAMINATION

Question: Last year you indicated that a final report on the health effects of the contaminant Temik in Florida would be provided by March 1985. Could you describe the major findings of the report?

Answer: The Florida Temik Study was conducted to examine the potential for drinking water contamination by the pesticide Temik in Florida. The community water systems sampled in this study serve more than 80% of the population residing in counties where Temik is applied. Temik residues were not detected in these community water systems. The final assessment report on health effects, for which the monitoring report was prepared, is currently undergoing peer review and is expected to be published in June of 1985.

ALCOHOL IN MARINE FUEL

Question: I understand that EPA is moving to eliminate lead in gasoline. The industry is adding alcohol as a substitute to boost octane ratings. The marine industry is greatly concerned that this presents a significant safety hazard. Alcohol weakens rubber parts, such as fuel lines. This could cause leaks and explosions. The marine industry urges that a labeling program be instituted so that boat users can be alerted to this hazard.

Has EPA evaluated the safety hazard of added fuel alcohol?

Answer: EPA is aware of the potential effect of fuels containing high proportions of alcohol on rubber parts. Under section 211 of the Clean Air Act, EPA must approve the addition of alcohols and other additives to unleaded gasoline. The Agency has granted a limited number of waivers, with restrictions to assure that resultant vehicle air pollution emissions do not exceed applicable standards. The result of this program has been that unleaded gasoline blends containing methanol have only been approved with low percentages of methanol (generally 5 percent) and with a requirement for a cosolvent alcohol which among other things tends to reduce their propensity to weaken rubber parts.

Question: What is the Agency's view on a labeling program?

Answer: Since EPA does not approve a fuel blend unless we are convinced it will not adversely affect vehicle emissions, we have not had a reason to require a labeling program. Many states however, are considering or have adopted labeling requirements.

SUBCOMMITTEE RECESS

Senator GARN. The subcommittee will stand in recess until Thursday, April 25, at 10 a.m., SD–124, at which time we will hear testimony from the Department of Housing and Urban Development. The subcommittee is recessed.

[Whereupon, at 11:58 a.m. Wednesday, April 24, the hearing was recessed, to reconvene at 10 a.m. Thursday, April 25, 1985.]

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT-INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1986

THURSDAY, APRIL 25, 1985

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:05 a.m. in room SD–124, Dirksen Senate Office Building, Hon. Jake Garn (chairman) presiding.

Present: Senators Garn, D'Amato, Leahy, Proxmire, and Lautenberg.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

STATEMENT OF HON. SAMUEL R. PIERCE, JR., SECRETARY

ACCOMPANIED BY:
- JOHN KNAPP, ACTING UNDER SECRETARY
- SHIRLEY McVAY WISEMAN, GENERAL DEPUTY ASSISTANT SECRETARY FOR HOUSING—DEPUTY FEDERAL HOUSING COMMISSIONER
- JUNE KOCH, ASSISTANT SECRETARY FOR POLICY DEVELOPMENT AND RESEARCH
- ALFRED MORAN, ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT
- LOUIS GASPER, EXECUTIVE VICE PRESIDENT, GOVERNMENT NATIONAL MORTGAGE ASSOCIATION
- PAUL ADAMS, INSPECTOR GENERAL-DESIGNATE
- WARREN LINDQUIST, ASSISTANT SECRETARY FOR PUBLIC AND INDIAN HOUSING
- STEPHEN MAY, ASSISTANT SECRETARY FOR LEGISLATION AND CONGRESSIONAL RELATIONS
- ANTONIO MONROIG, ASSISTANT SECRETARY FOR FAIR HOUSING AND EQUAL OPPORTUNITY
- JUDITH L. TARDY, ASSISTANT SECRETARY FOR ADMINISTRATION
- RICHARD FRANCIS, PRESIDENT-DESIGNATE, SOLAR ENERGY AND ENERGY CONSERVATION BANK
- DEBORAH G. DEAN, EXECUTIVE ASSISTANT TO THE SECRETARY
- JAYNE GALLAGHER, DIRECTOR, OFFICE OF THE ASSISTANT SECRETARY FOR PUBLIC AFFAIRS
- GORDON WALKER, DEPUTY UNDER SECRETARY FOR FIELD COORDINATION

ACCOMPANIED BY—Continued

ALAN GREENWALD, ACTING DEPUTY UNDER SECRETARY FOR INTERGOVERNMENTAL RELATIONS

TIMOTHY COYLE, DEPUTY ASSISTANT SECRETARY FOR LEGISLATION, OFFICE OF LEGISLATION AND CONGRESSIONAL RELATIONS

JANET HALE, DEPUTY ASSISTANT SECRETARY FOR POLICY, FINANCIAL MANAGEMENT AND ADMINISTRATION, OFFICE OF HOUSING

ALBERT J. KLIMAN, DEPARTMENTAL BUDGET OFFICER

OPENING REMARKS OF CHAIRMAN

Senator GARN. The committee will come to order.

I am sure you realize, Mr. Secretary, that if you had been appearing before the Senate Banking Committee, I couldn't have given you that extra time [laughter] because I made a commitment 4½ years ago that the Banking Committee would always start on time, and it has for 4½ years, right to the second, never been a second late. But, fortunately, I didn't make that commitment in this subcommittee. Therefore, I could give you 3 or 4 minutes before we started.

But it is a pleasure to welcome you here this morning to testify on your Department's fiscal year 1986 budget. This year, as you well know, the budget request for your Department is still very much in a state of flux. The President's budget proposed no incremental units, a housing moratorium for 2 years, while the recent Senate Republican/White House plan provides for a freeze on HUD programs.

I have been in many discussions in the last days, and I would say that looking at the budget and all of the debate that is going on internally and externally, I feel considerably more spaced out here than I did last week [laughter] and much less certain of what is going on or what people are doing. I, frankly, have been working with people lately who know exactly what they are doing and what their mission is. Unfortunately, I am back in the Senate and that is not the case any more. [Laughter.]

But I hope maybe we can today flesh out some of these differences between budget freezes and at least have some common base of understanding of where we are attempting to go.

PREPARED STATEMENT

As usual, of course, we will place your entire prepared statement in the record. Please proceed with your summary.

[The statement follows:]

STATEMENT OF SAMUEL R. PIERCE, JR.

Mr. Chairman and members of the committee, it is a pleasure to once again appear before you to testify on the fiscal 1986 budget and legislative proposals for the Department of Housing and Urban Development. It's no secret that our budget proposal is part of the continuing negotiation between the administration and the Congress. I hope a satisfactory outcome is achieved.

When I became Secretary of HUD, I took to heart President Reagan's charge to reduce the size and cost of government while continuing to help the most needy. We met this goal and helped bring about the economic recovery which has meant a halt to runaway inflation, more jobs, and new hope for the American people.

I'm proud that we're helping to house more needy people than ever have been housed before. This administration is directing our assistance to people, not bricks and mortar. We're doing this while reducing the Nation's assisted housing debt. The chart dramatically portrays this fact.

In 1981, the total assisted housing debt was being forecast at $250 billion by 1982—a quarter of a trillion dollars. Clearly, we had to redirect the Nation's housing policy to save us from an assisted housing debt of catastrophic proportions, while continuing to help the needy.

As a first step—and with your help—we switched emphasis from new construction programs to those which use existing housing stock. When I recommended that we terminate the Section 8 New Construction Program, the Congress agreed. It was an exorbitantly expensive program which took 3 to 4 years before actually housing anyone.

We developed the Voucher Program which provides housing assistance to eligible families at about one-third the cost of new construction.

With these actions and others, we've begun to reduce the assisted housing debt, as the chart indicates. At the same time, we're assisting more families than ever. In fiscal 1981, HUD was assisting 3.2 million families with housing; in 1986 that number will have risen to 4.2 million, an increase of approximately 1 million families since I arrived at HUD.

I'm proud of that increase. And, I'm proud of the reduction we've achieved—and continue to achieve—in the assisted housing debt. I intend to maintain and improve upon our progress on both these fronts. But present conditions demand that we do even more.

Today, as President Reagan said in his Second Inaugural Address: "We have come to a turning point, a moment for hard decisions." In making those decisions, we benefit by the groundwork laid over the last 4 years, much of it with the assistance of this committee.

Our proposals of the early 1980's sought new means to address the low-income housing needs of this country both thoughtfully and sensibly. With vouchers, we have an assisted housing program that uses existing housing stock instead of focusing on new construction. We offer freedom of choice and a shopper's incentive for a family, instead of forcing the family to live in a specific housing project. And we shelter that family today, not 3 to 4 years from now, which was common under section 8 new construction.

The American people have a commitment to provide decent, safe and affordable housing for those who are needy. With these changes and new programs, we can honor that commitment quicker and at a lower cost in the future.

Mr. Chairman, as you know, to help attack Federal deficits, the administration's budget calls for a temporary pause in funding new assisted housing units.

It includes a moratorium on incremental units, knowing that our pipeline will continue to add significantly to those families we now assist—207,000 new families during 1986 and 1987 alone. It also recognizes that, when funding resumes, our programs will add even more families, who will be housed more quickly because of vouchers and rental rehabilitation.

Under the proposed budget compromise—if the package is accepted—we would continue incremental assistance set at the 100,000-unit level in 1986.

Whatever the outcome of that negotiation, it is time to make vouchers a permanent program. Vouchers are the cornerstone of the administration's housing policy.

Now is the time to settle on a plan for the future, instead of drifting back to inefficient programs of the past. With continued pressure on already limited budget dollars, we must be sure we're getting the most for our money. The Voucher Program provides such assurance. By offering the needy some choice in seeking housing suitable to their needs, and by delivering housing assistance at less cost to the taxpayer, vouchers are a common sense solution to a difficult problem.

By comparison, the Rental Housing Development Grant Program [HoDAG] has proved to be an expensive way to subsidize lower income housing, in effect costing $76,000 for each lower income unit.

Nor is HoDAG well targeted to need. Over 40 percent of the projects funded thus far are located in cities with a rental vacancy rate above the national median. Accordingly, we propose terminating the HoDAG Program.

In addition to these budget initiatives, the administration proposes terminating housing assistance programs under the Farmers Home Administration. It makes sense to have all housing assistance programs administered by one department. We at HUD are prepared to provide housing assistance to rural populations, and I'm confident we can do a good job serving their needs. Under the budget compromise, continuation of the 100,000-unit level for HUD in 1986 depends on terminating Farmers Home Administration housing programs.

For public and Indian housing, our proposals rest on a foundation of long-term planning, management reforms, and use of a substantial modernization pipeline.

The modernization program level, too, could change as part of the budget compromise process. Of course, whatever the outcome of that negotiation, we'll continue to help PHA's improve their management efficiency and better maintain existing housing. In fact, our goal is to change the system that funds public housing in ways that give greater recognition to local realities and local preferences.

I soon will submit a proposal for a comprehensive grant system which would become effective in fiscal 1987. The objectives of the proposal will be to deregulate the Public Housing Program in favor of a greater degree of local choice and to provide a greater degree of predictability of funding for capital improvements through use of formula funding. I look forward to working with the Congress toward developing such a system.

In addition, our 1986 budget and legislative package proposes public housing financing reform to reduce budget outlays in future years. The Tax Reform Act of 1984 has prevented us from rolling over in the private market approximately $14 billion in guaranteed, tax-exempt, short-term notes. We are buying up the entire inventory of these notes, increasing outlays and budget authority sharply in 1985.

We propose to turn this problem into an opportunity by seeking legislation to cancel both the Treasury debt and the debt of the public housing authorities. By retiring this debt and financing new public housing commitments with up-front grants, we would save billions of dollars in future years.

With steps like these, we hope to avoid mortgaging our children's future.

The people who live in public housing also deserve a better future. The quality of life in public housing is important to us and we're being innovative on behalf of those who live there. Among our initiatives to improve the quality of life in public housing is a demonstration which encourages home ownership by the tenants themselves. We must improve and preserve our existing housing inventory, and we are committed to seeing that public housing projects are maintained and upgraded.

Now, I'll discuss our community development proposals. Community Development Block Grants must play a part in our deficit reduction effort for 1986. We propose a CDBG reduction of 10 percent to a funding level of $3.125 billion. This is solely a belt-tightening measure for fiscal 1986. Beginning in fiscal 1987, we will increase funding by roughly 4 percent per year through 1990.

As you know, the administration proposed to end Farmers Home Administration assistance for public facility construction projects. To compensate for the reduction in this assistance to communities served by Farmers Home, we would change the split of CDBG funds between the entitlement and nonentitlement categories from a 70 and 30 percent division to a 60 and 40 percent split. This allocation change would allow more of the community development activities currently carried out by Farmers Home to be undertaken by small communities through the State CDBG program. On the other hand, if the current negotiations between the administration and the Congress result in a continuation of Farmers Home Assistance for public facilities construction projects, then we would propose maintaining the 70/30 split of Community Development Block Grant funds between entitlement and nonentitlement programs.

Mr. Chairman, we propose terminating one major development program—Urban Development Action Grants, or UDAG. As you know, I've been one of the program's strongest supporters. I fought for its continuation every year since 1981.

UDAG has been a good program. Over the last 4 years UDAG made possible redevelopment projects which could not have been achieved without it. However, we've come to the point where we must reduce our budget to bring down current and outyear deficits. To do this, the administration proposes to eliminate Federal financing and grant programs for local economic development, programs such as EDA, the Appalachian Regional Commission, and UDAG. By terminating these programs, savings to the Treasury will be nearly $2 billion in just 3 years.

It's worth noting that over 80 percent of the communities which have won UDAG awards will receive some form of debt service repayment in 1986. Looked at another way, this year—fiscal 1985—debt service repayment to communities will amount to approximately $170 million—roughly 38 percent of current annual UDAG appropriations. This repayment increases yearly, in 1988 reaching about 50 percent of current annual UDAG appropriations. These repayments allow communities to carry on new economic development activities.

Our budget proposes expanded authority and outlays in one key area—fair housing. After 17 years of experience under the Fair Housing Act, it is all too apparent that housing discrimination continues to plague our Nation. Because discriminatory practices have become sophisticated and subtle, they have become more difficult to detect.

The President and I are determined to confront these insidious practices and remove barriers which unfairly discriminate against minorities and women. We are proposing a Fair Housing Initiatives Program to be funded at $10 million for fiscal 1986. This will be part of an expanded national effort to focus on the problem of discrimination in housing by utilizing both public and private resources and energies at the grassroots level. We want to strengthen the capacity of State and local agencies, both public and private, to use judicial and administrative processes to more effectively fight discrimination. When FHIP is enacted, our funding criteria will be carefully drawn to ensure that taxpayers' money supports only those organizations which function responsibly to ferret out unlawful discriminatory practices.

In addition, we will continue our existing Fair Housing Assistance Program at a funding level of $5 million. This brings the total budget authority for fair housing programs to $15 million, up from $6.7 million in 1985.

As you know, the President and I have long recognized that we need to strengthen the enforcement provisions of our fair housing law. The issue of fair housing transcends partisan concerns. Stronger fair housing enforcement will be a major legislative effort for us this year.

Another priority is enacting Federal enterprise zone legislation. Enterprise zones are targeted to areas of the country that are severely distressed. Surrounded by extreme poverty and unemployment, these areas are not benefiting from the economic recovery, nor are they likely to in the foreseeable future.

Enterprise zones can help alleviate the severe problems in these areas. With Federal tax and regulatory relief added to State and local incentives, private-sector capital will be attracted to our distressed communities. Enterprise zones can help us to replace poverty and despair with jobs and hope.

I know this committee and the rest of the Senate, indeed the entire Congress, face a critical challenge in balancing the needs of the American people with the serious threat which budget deficits pose for the economic health of our country.

My staff and I will work with you to achieve the most equitable balance possible.

I'm convinced we can bring the Federal budget under control. And, doing so will help us insure that the fruits of our prosperity are shared as widely as possible, especially with those with the greatest needs.

HOUSING PROGRAMS

Now, Mr. Chairman, I would like to present more detail on the proposed 1986 budget proposals. However, as I have noted, a number of changes are under consideration as part of an overall budget compromise. We want to work with the Congress, to arrive at a final budget which meets the Nation's needs.

SUBSIDIZED HOUSING

The overwhelming need to reduce Federal spending and the Federal deficit prompted the administration to propose a moratorium on the reservation of incremental or additional assisted housing units in fiscal years 1986 and 1987. A total of 10,000 section 8 existing project-based reservations would be available for loan management and property disposition and 3,500 voucher reservations a year would continue to be made during the moratorium period for tenants affected by public housing demolition and section 8 new construction/substantial rehabilitation opt-outs. An additional 1,000 units are proposed for conversions from the section 23 program for a total unit reservation level of 14,500 in 1986.

The moratorium would have no effect on those reservations made in prior years and, in fact, the number of families assisted would continue to grow as units reserved in prior years reach completion.

Consistent with the moratorium, the budget for 1986 proposes the release of $499 million of new budget authority. This new authority, in addition to an estimated carryover of $892.9 million from 1985, will allow us to carry out a $1.4 billion program for 1986 to support the 14,500 units, for amendments, and for modernization.

The budget reflects resumption of 100,000 units of incremental assistance in 1988.

RENTAL HOUSING DEVELOPMENT GRANTS

The Rental Housing Development Grants Program is proposed to be terminated in 1986 as part of the administration's spending freeze. A stabilized economic environment is seen as the best way to encourage the development of rental housing by the private sector.

To date, the Department has reserved 14,462 units utilizing $288 million of the $315 million made available in July 1984. We estimate that approximately 16,000 units will be assisted under the program when the full $315 million is obligated later this year.

HOUSING FOR THE ELDERLY OR HANDICAPPED

The moratorium includes the Section 202 Housing for the Elderly or Handicapped Program. However, this would have a very limited impact on the program in 1986 and 1987 since we expect an additional 28,000 units, currently in the pipeline to be completed during this period. To insure that these units are properly funded, the budget proposes a $50 million loan ceiling to support amendments on loans already approved. In addition, the budget proposes that loans closed in 1986 be based on the program's Treasury borrowing cost, plus an administrative fee of one-fourth of 1 percent.

NONPROFIT SPONSOR ASSISTANCE

No appropriation is requested for the Nonprofit Sponsor Assistance Program since loan amounts can be funded from repayments of prior-year loans. However, a loan limitation of $500,000 for 1986 is included in the budget in order to support section 202 housing for the elderly or handicapped proposals approved in 1985 that are expected to request 106(b) seed money loan assistance in 1986.

HOMEOWNERSHIP ASSISTANCE

We are proposing no new appropriations in 1986 for the Section 235 Homeownership Assistance Program. Balances of authority remaining available will lapse at the end of 1985, except for amendments to contracts reaching insurance endorsement. During 1985 the Department plans to obligate the $15 million available for the restructured program as authorized in the Housing and Urban-Rural Recovery Act of 1983.

RENT SUPPLEMENT AND RENTAL HOUSING ASSISTANCE PROGRAMS

The budget projects that conversions to the section 8 program will be completed during 1985 for all projects willing to convert. Those projects not converting to section 8 by the end of 1985 will continue to receive funding at their current commitment levels. However, no amendment funding will be available. Noninsured State-aided projects will be exempted from the conversion policy and will continue to receive subsidy assistance and necessary amendments as authorized by the 1983 Supplemental Appropriations Act.

HOUSING PAYMENTS

In 1985, a permanent indefinite appropriation was enacted for each of the separate programs covered under the old Housing payments consolidated appropriation. The permanent indefinite appropriations cover liquidation payments for subsidized housing programs and include subsidy payments for section 8, public and Indian housing, section 235, section 236, rent supplement and college housing debt service grants. Because of this action, no appropriation request is necessary.

We estimate that liquidation requirements for 1986 will be approximately $11 billion. This assumes enactment of our proposed legislation to reform the method of financing public and Indian construction and modernization activities. Outlays are estimated at $9.1 billion and we expect approximately 4.2 million units will be eligible for payment by the end of 1986.

MORTGAGE AND LOAN INSURANCE

The administration recognizes the importance to the economy of a healthy housing industry and we propose to continue providing a substantial level of credit support to this sector. The budget proposes a $50.9 billion limitation on gross commitments for mortgage and loan insurance in 1986. The budget projects the use of $32.7 billion of the limitation to support insurance applications for 570,000 single-family homes, 64,500 multifamily units, and 225,000 insured title I loans during 1986.

We also are proposing a direct loan limitation of $89.2 million under the Temporary Mortgage Assistance Payments Program [TMAP] for 1986 for payments on behalf of homeowners who have suffered temporary loss of income due to circumstances beyond their control.

In addition, the budget reflects a proposed increase for single-family prepaid premiums from 3.8 percent to 5.0 percent in 1986. This change, which would have FHA and the Veterans Administration charging the same amount, is part of an administration effort to increase user fees on a wide variety of Government programs. Under the current version of the budget compromise, VA would phase up to 3.8 percent by 1988 and FHA would remain at the current 3.8 percent.

To reimburse the general insurance and special risk insurance funds for actual losses experienced in 1984, we are requesting a $239.8 million appropriation in 1986. This appropriation will be used to pay mortgage and loan insurance claims, operating expenses, and to retire outstanding Treasury borrowings. As you know, these appropriations have allowed the Department to hold the line on additional Treasury borrowings over the years and thereby reduce interest costs to the FHA fund.

TROUBLED PROJECTS/FLEXIBLE SUBSIDY PROGRAM

Funding for the Troubled Projects/Flexible Subsidy Program will be provided in 1986 by using unobligated balances expected to be carried over from 1985 along with transfers from the Rental Housing Assistance Fund. No additional funds are requested. These funds will be used to support the comprehensive needs of an estimated 163 financially troubled projects in 1986 and keep them from going into default or foreclosure.

PUBLIC AND INDIAN HOUSING FINANCING REFORM

The 1986 budget proposes a major reform in the method of financing public and Indian housing development and modernization activities. However, this revised financing approach will not impact on activities of public housing agencies or Indian housing authorities. We will continue to provide operating subsidies to assist the units under management. Furthermore, this revised financing method will not directly impact on the level of future development or modernization.

Previously, the Department made commitments to provide long-term debt service financing utilizing tax-exempt financing instruments in the private market or by borrowing from the Federal Financing Bank [FFB]. The new financing reform would involve several changes in past procedures. Starting in 1986, new development and modernization activities would be financed fully with one-time capital funding payments rather than with long-term financing commitments. The method of financing development and modernization activities funded through 1985 also would be revised.

Currently, temporary tax-exempt notes that had been sold in the private market are being redeemed as they mature by utilizing Treasury borrowings since the tax-exempt notes presently cannot be refinanced in the private market. This is a result of provisions contained in the Tax Reform Act of 1984. Direct borrowing from the Treasury also is being used to provide for units currently in the development pipeline and for modernization. We are also proposing legislation to request forgiveness of borrowing from the Treasury used to redeem outstanding notes and to provide for units in the processing pipeline and modernization. Due to the reduction in long-term debt service requirements which would result from the proposed new financing method, unneeded budget authority would be recaptured and rescinded for development and modernization. However, the proposal to reform the financing method will not apply to outstanding bonds or FFB instruments which have been used to permanently finance these programs.

PUBLIC AND INDIAN HOUSING DEVELOPMENT AND MODERNIZATION

Consistent with the governmentwide effort to reduce the Federal budget deficit, the budget includes a 2-year moratorium on new approvals for developing additional public and Indian housing units and a partial 1-year moratorium on the Modernization Program. Public and Indian housing units reserved prior to 1986 will continue to be developed until completed. We expect that with an estimated 39,315 public housing units and 12,081 Indian housing units in the preconstruction and construction pipelines at the start of fiscal year 1986, 26,374 public and Indian housing units will be completed in 1986. Those projected completions are anticipated to be slightly higher than our experience in 1984. Following the 2-year moratorium on new approvals for additional development, the approval of new units for Indian families would be resumed together with the approval of additional units to be provided under the Voucher Program for other low-income families.

The budget also includes $82.3 million of capital cost funding in 1986 for amending public and Indian housing contracts to complete those public and Indian projects in the pipelines which are financially feasible. This financing will enable projects to be constructed, correct design and construction deficiencies, or provide adjustments in cost requirements. A portion of this funding also will be used for Indian housing off-site water and sewer facilities.

We also are requesting $175 million of funding for the modernization program in 1986 to meet emergency modernization requirements only. The budget anticipates the resumption of higher levels of funding for this program in 1987. Depending on the outcome of current budget negotiations, the higher levels could continue in 1986.

PUBLIC HOUSING OPERATING SUBSIDIES

An appropriation of $1.0 billion is requested in 1986 for operating subsidies to support the operation of public housing agencies and Indian housing authorities. The estimate is based, primarily, on the use of the performance funding system [PFS] formula in calculating operating subsidy requirements. The appropriation request reflects the implementation of enacted legislation increasing the maximum allowable rent levels for tenants and a revised definition of adjusted income. The estimate also assumes revised operating subsidy calculations based on the impact of a rolling base utility consumption level, a 1-year freeze of public housing agency and Indian housing authority personnel and related expenses levels, and limiting payments where there are excessive vacancy levels.

Because resources available for 1985 are in excess of funding requirements for the year, the budget also proposes a rescission of $253.1 million for 1985.

GNMA MORTGAGE-BACKED SECURITIES PROGRAM

We propose the continuation of the limitation on the Mortgage-Backed Securities Program in 1986 at a level of $68.25 billion of commitments issued, and we expect $36.5 billion of issued guarantees.

The guarantee level is based on FHA and VA estimates of mortgage insurance and guarantee activity, and the estimated effect on program volume of a proposed 9 basis point increase in guarantee fees for single-family issuances. The increase in guarantee fees is part of an overall administration effort to increase user fees on a wide variety of programs. The increase in GNMA fees is associated in this budget with proposals for similarly increased fees for Federal National Mortgage Association [FNMA] and Federal Home Loan Mortgage Corporation [FHLMC].

SOLAR ENERGY AND ENERGY CONSERVATION

The budget proposes no additional budget authority for the Solar Bank Program in 1986.

To date the Department has obligated some $65 million to the States and is operating the program according to congressional mandate. Based on the current expenditure rate of approximately $2 million a month it is estimated that about $20 million of the $65 million will be available to the States for disbursement in fiscal year 1986. The Bank is also planning to obligate the 1985 appropriation of $15 million to the States in the fourth quarter of fiscal year 1985.

COMMUNITY DEVELOPMENT BLOCK GRANTS

For the Community Development Block Grant Program, we are requesting $3,125 million, a 10-percent reduction from the 1985 block grant appropriation. Within this amount, we expect to use $60.5 million for activities under the Secretary's discretionary fund, including grants to Indian tribes, insular areas, special projects, and technical assistance to States and units of local government to aid them in making the most effective use of their block grant funds.

Legislation is being proposed to change the percentage distribution of CDBG funds between the entitlement and State block grant programs from 70 percent/30 percent to 60 percent/40 percent. This would help mitigate the effects of proposed Federal funding reductions in Farmers Home and other Federal programs for rural areas. As I indicated earlier, if Farmers Home development programs are not terminated, based on the budget compromise, then we would propose maintaining the current 70/30 split.

Entitlement funding in 1986 would assist 719 metropolitan cities and an estimated 111 urban counties in carrying out their community development activities. These communities use their grant funds to upgrade their housing stock, expand economic opportunities for their citizens and improve their public facilities and services. The small cities program would provide support for 50 States plus Puerto Rico.

All block grant recipients are encouraged to maximize benefits from CDBG funds by utilizing other local public and private resources. In this endeavor, recipients are continuing to establish and maintain local public/private partnerships.

URBAN DEVELOPMENT ACTION GRANTS

As many of you know, I have strongly supported UDAG in the past and fought for its continuation. But the current fiscal reality requires sacrifice, and UDAG is a case in which HUD must contribute to that sacrifice. We, therefore, propose terminating the Urban Development Action Grants Program in 1986. This was one of the hard decisions the President had to make.

URBAN HOMESTEADING

The Urban Homesteading Program continues to provide a low-cost, effective method of improving existing housing stock and promoting neighborhood revitalization. A $12 million appropriation is proposed for this program in 1986 to support the conveyance and homesteading of 827 single-family units.

One proposed legislative change in the program in 1986 is a charge to be paid by certain prospective homesteaders whose incomes exceed 80 percent of the median income for the area. Proposed legislation would permit a State or locality that had no applicants meeting the income priority or whose priority applicants refused available properties, to charge prospective homesteaders who could afford the property rather than give it away. This fee would be returned to the U.S. Treasury.

RENTAL REHABILITATION GRANTS

The budget proposes a 2-year funding moratorium for the Rental Rehabilitation Program to begin in fiscal year 1986. This proposal is consistent with the moratorium recommended on the provision of additional housing assistance also to begin in 1986.

While serving to alleviate the Federal deficit, the proposed moratorium would not preclude the Department from actively implementing the rehabilitation of at least 60,000 units funded in fiscal years 1984 and 1985. These units will be available for families using section 8 certificates and housing vouchers also funded in fiscal years 1984 and 1985.

TERMINATED PROGRAMS

Our 1986 budget proposals call for the termination of both the section 108 Loan Guarantee and section 312 Rehabilitation Loan Programs. We are again recommending terminating the section 108 Loan Guarantee Program in support of the administration's overall effort to reduce market pressures caused by Federal guarantees. We recommend terminating the section 312 program because housing rehabilitation assistance is available under the Community Development Block Grant [CDBG] Program.

ENTERPRISE ZONES

In his State of the Union address, President Reagan noted, "We have repeatedly sought passage of enterprise zones to help those in the abandoned corners of our land find jobs, learn skills, and build better lives." And he urged, "Let us place new dreams in a million hearts and create a new generation of entrepreneurs by passing enterprise zones this year." He has spoken repeatedly about enterprise zones, reenforcing the need for this important legislation.

So far, 24 States have adopted the enterprise zone concept. Of those States, 23 have passed legislation and 1, the Commonwealth of Pennsylvania, has implemented a program administratively by targeting resources from existing State assistance programs. In over 460 jurisdictions, 19 States have designated more than 1,150 zones, and indications are that in those zones jobs saved or created number in tens of thousands and that capital investment in zones has increased by well over $1 billion nationwide.

Enactment of Federal legislation, with tax incentives and potential regulatory relief, will immeasurably enhance the successes already being enjoyed under the more limited State/local programs.

POLICY DEVELOPMENT AND RESEARCH

An appropriation of $18.9 million is requested in 1986 for the "Research and technology" account to carry out the Department's research program. We will continue to emphasize the improvement of the efficiency, and effectiveness of the Department's programs as well as the development of new approaches to carrying out the Department's mission.

In fiscal year 1986, my Policy Development and Research Office will conduct work on:

—A full spectrum of housing finance issues, and the development of proposals to ensure a sound and stable system of mortgage funding, including improvements in ARM's, strategies to overcome dysfunctions in the secondary mortgage market; and increasing access of mortgages to the capital markets;

—Responses to proposed tax changes based on analysis of their impact on low-income housing, national housing markets, and cities and States, focused on the needs of both homeownership opportunities and the affordability of lower income housing;

—Initiatives to improve public housing management and maintenance through direct management improvements for PHA's, determination of maintenance needs of public housing authority projects, and working with tenants to improve the quality of life in public housing;

—Evaluation of the programs authorized by the Housing and Urban-Rural Recovery Act of 1983 (Public Law 98-121);

—Promotion, through the joint venture for affordable housing, of regulatory strategies to help make housing more affordable;

—Promoting the ability of State and local governments to more fully assess their fiscal and economic conditions by establishing a new urban data base. This new data base will also make possible improved modeling of urban economic development; and

—Evaluation of current Federal, State, and local fair housing activities and identification of new strategies to promote fair housing and prevent discrimination, as well as evaluation and support of the Department's new Fair Housing Initiatives Program.

PD&R will also be conducting a series of demonstrations to improve the quality of life for families living in public housing. A major departmental initiative in this area is the public housing homeownership demonstration which is designed to further one of HUD's most important long-term goals—to encourage homeownership for as many American families as possible.

The demonstration will provide information on the feasibility of an operational program and will allow for the testing of several different approaches to homeownership for low-income families. It will provide us with operational information which we can use should we decide to issue regulations implementing section (5h), the section of the U.S. Housing Act which allows sales to tenants. Most important, it will give families living in public housing a homeownership stake in their communities that can lead to neighborhood stability and ultimate improvement in the quality of their lives.

We have 35 applications from PHA's and IHA's for the sale of 3,450 units and are currently reviewing them. We have applications from virtually every region of the country. Two-thirds of these units are single family and will be sold on a fee simple basis. The remaining one-third are multifamily units which will be sold primarily as cooperatives. The NOFA requires homeownership be affordable by low-income purchasers consistent with housing assistance burden for low-income housing. We will be working with the PHA's and tenant organizations to develop more information on characteristics of tenants involved in the demonstration, as well as their needs for technical assistance and support. We believe that working together with the PHA's, tenants organizations, and local governments, we can learn what needs to be done to make homeownership workable for a wide range of low-income families.

FAIR HOUSING AND EQUAL OPPORTUNITY

Our 1986 budget will expand resources in one key area—fair housing. We are determined to assure fair housing for all Americans. Our one new undertaking next year will be a Fair Housing Initiatives Program, to be funded at $10 million in fiscal year 1986. This will be part of an expanded national effort to bring both public and private resources and energies to bear on the problem of discrimination in housing.

In addition, our existing Fair Housing Assistance Program will be continued at a funding level of $5 million. This will bring the total budget authority for fair housing programs to $15 million—an increase of $8.3 million above the 1985 current estimate of $6.7 million.

Housing discrimination remains a serious national problem 17 years after passage of title VIII of the Civil Rights Act of 1968. We have long recognized that we need to strengthen the enforcement provisions of our fair housing law. The amendments we proposed last year sought to do that. This year, we will again seek enactment of a stronger fair housing law.

A stronger law is only part of the answer. In order to fight the battle against housing discrimination more effectively, we need to enlist all parties active in the fair housing arena. Thus, we are proposing this new comprehensive program to provide the means to assist fair housing enforcement, compliance, education, and outreach activities. State and local equivalent agencies, civil rights organizations, private fair housing groups, and others would be eligible for funding under this Fair Housing Initiatives Program. We will make sure that funding support under FHIP will only go to those organizations which function responsibly in ferreting out unlawful practices.

The other principal component of the Department's comprehensive fair housing strategy is the existing Fair Housing Assistance Program for which the budget request for fiscal year 1986 is $5 million. Of this amount, $4 million will provide for the capacity building of State and local agencies recognized by HUD as substantially equivalent under title VIII of the Civil Rights Act of 1968 and to reimburse those agencies for complaints processed. The remaining $1 million will provide support for community housing resource boards to increase their effectiveness in assisting local housing industry groups and HUD in the administration of voluntary affirmative marketing agreements.

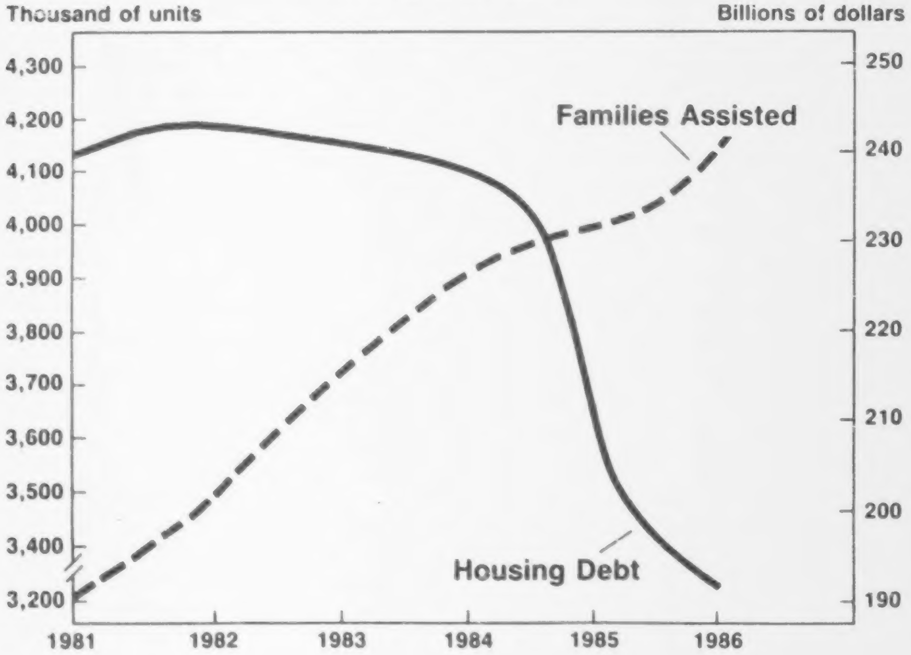
In the event that legislation is delayed, we do not wish to reduce the current levels of assistance. Therefore, the budget includes appropriation language to transfer $1.7 million of the proposed Fair Housing Initiatives Program appropriation to this account if there is no legislation for the new program by January 1.

Finally, my proposal for staff and their related costs also reflects our efforts to reduce the cost of government while delivering and managing the Department's programs in a businesslike manner. For salaries and expenses I am requesting $549.4 million, which is $35.5 million less than the 1985 level of $584.9 million. These funds will support an end-of-year full-time permanent staff level of 10,867, which is a reduction of 735 from the 1985 level of 11,602.

The reduced funding level is primarily due to the staff reduction and includes an $18.2 million reduction for a 5-percent pay decrease. The staff reduction reflects not only reduced program levels, but also savings due to improved productivity gained through streamlined techniques and procedures—including the increased use of automated data processing technology—and a more efficient organizational structure. The latter change is primarily in the field, where we plan to reduce the number of regions from 10 to 6 and to close a number of small field offices. The field reorganization alone is expected to save 170 positions.

Mr. Chairman, that concludes my prepared remarks. I will now be happy to answer any questions you or the committee members may have.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT SUBSIDIZED HOUSING PROGRAMS NUMBER OF FAMILIES ASSISTED AND HOUSING DEBT 1986 BUDGET



SUMMARY OF STATEMENT

Secretary PIERCE. Thank you very much, Mr. Chairman.

Mr. Chairman and members of the committee, it is a pleasure to once again appear before you to testify on the fiscal 1986 budget and legislative proposals of the Department of Housing and Urban Development. It is no secret that our budget proposal is part of a continuing negotiation between the administration and the Congress. I hope a satisfactory outcome is achieved.

When I became Secretary of HUD, I took to heart President Reagan's charge to reduce the size and cost of government while continuing to help the most needy. We met this goal and helped bring about the economic recovery which has meant a halt to runaway inflation, more jobs, and new hope for the American people.

I am proud that we are helping to house more needy people than have ever been housed before. This administration is directing our assistance to people, not bricks and mortar. We are doing this while reducing the Nation's assisted housing debt. The chart to my left dramatically portrays this fact.

In 1981, the total assisted housing debt was being forecast at $250 billion by 1982, a quarter of a trillion dollars. Clearly, we had to redirect the Nation's housing policy to save us from an assisted housing debt of catastrophic proportions while continuing to help the needy.

As a first step, and with your help, we switched emphasis from new construction programs to those which use existing housing stock. When I recommended that we terminate the Section 8 New Construction Program, the Congress agreed. It was an exorbitantly expensive program which took 3 to 4 years before actually housing anyone.

We developed the Voucher Program which provides housing assistance to eligible families at about one-third the cost of new construction.

With these actions and others, we have begun to reduce the assisted housing debt. At the same time, we are assisting more families than ever. In fiscal 1981, HUD was assisting 3.2 million families with housing. In 1986, that number will have risen to 4.2 million, an increase of approximately 1 million families since I arrived at HUD.

I am proud of that increase and I am proud of the reduction we have achieved, and continue to achieve, in the assisted housing debt. I intend to maintain and improve upon our progress on both these fronts. But present conditions demand that we do even more.

Today, as President Reagan said in his Second Inaugural Address: "We have come to a turning point, a moment for hard decisions." In making those decisions, we benefit by the groundwork laid over the last 4 years, much of it with the assistance of this committee.

Our proposals of the early eighties sought new means to address the low-income housing needs of this country, both thoughtfully and sensibly. With vouchers, we have an assisted housing program that uses existing housing stock instead of focusing on new construction. We offer freedom of choice and a shopper's incentive for a family instead of forcing the family to live in a specific housing project. And we shelter that family today, not 3 to 4 years from now, which was common under section 8 new construction.

The American people have a commitment to provide decent, safe, and affordable housing for those who are needy. With these changes and new programs, we can honor that commitment quicker and at a lower cost in the future.

Mr. Chairman, as you know, to help attack Federal deficits, the administration's budget calls for a temporary pause in funding new assisted housing units.

It includes a moratorium on incremental units, knowing that our pipeline will continue to add significantly to those families we now assist—207,000 new families during 1986 and 1987 alone. It also recognizes that when funding resumes, our programs will add even more families who will be housed more quickly because of vouchers and rental rehabilitation.

Under the proposed budget compromise, if the package is accepted, we would continue incremental assistance set at the 100,000 unit level in 1986.

Whatever the outcome of that negotiation, it is time to make vouchers a permanent program. Vouchers are the cornerstone of the administration's housing policy.

Now is the time to settle on a plan for the future instead of drifting back to inefficient programs of the past. With continued pressure on already limited budget dollars, we must be sure we are getting the most for our money. The Voucher Program provides such assurance. By offering the needy some choice in seeking housing suitable to their needs and by delivering housing assistance at less cost to the taxpayer, vouchers are a common sense solution to a difficult problem.

By comparison, the Rental Housing Development Grant Program [HoDAG] has proved to be an expensive way to subsidize lower income housing, in effect costing $76,000 for each lower income unit.

Nor is HoDAG well targeted to need. Over 40 percent of the projects funded thus far are located in cities with a rental vacancy rate above the national median. Accordingly, we propose terminating the HoDAG Program.

In addition to these budget initiatives, the administration proposes terminating housing assistance programs under the Farmers Home Administration. It makes sense to have all housing assistance programs administered by one department. We at HUD are prepared to provide housing assistance to rural populations, and I am confident we can do a good job serving their needs. Under the budget compromise, continuation of the 100,000 unit level for HUD in 1986 depends on terminating Farmers Home Administration housing programs.

For public and Indian housing, our proposals rest on a foundation of long-term planning, management reforms, and use of a substantial modernization pipeline.

The modernization program level, too, could also change as part of the budget compromise process. Of course, whatever the outcome of that negotiation, we will continue to help PHA's improve their management efficiency and better maintain existing housing. In fact, our goal is to change the system that funds public housing in ways that give greater recognition to local realities and local preferences.

I soon will submit a proposal for a comprehensive grant system which would become effective in fiscal year 1987. The objectives of the proposal will be to deregulate the Public Housing Program in favor of a greater degree of local choice and to provide a greater degree of predictability of funding for capital improvements through use of formula funding. I look forward to working with the Congress toward developing such a system.

In addition, our 1986 budget and legislative package proposes public housing financing reform to reduce budget outlays in future years. The Tax Reform Act of 1984 has prevented us from rolling over in the private market approximately $14 billion in guaranteed, tax-exempt, short-term notes. We are buying up the entire inventory of these notes, increasing outlays and budget authority sharply in 1985.

We propose to turn this problem into an opportunity by seeking legislation to cancel both the Treasury debt and the debt of the public housing authorities. By retiring this debt and financing new public housing commitments with up-front grants, we would save billions of dollars in future years.

With steps like these, we hope to avoid mortgaging our children's future.

The people who live in public housing also deserve a better future. The quality of life in public housing is important to us, and we are being innovative on behalf of those who live there. Among our initiatives to improve the quality of public housing is a demonstration which encourages home ownership by the tenants themselves. We must improve and preserve our existing housing inventory, and we are committed to seeing that public housing projects are maintained and upgraded.

Now I will discuss our community development proposals. Community development block grants must play a part in our deficit reduction effort for 1986. We propose a CDBG reduction of 10 percent, to a funding level of $3.125 billion. This is solely a belt-tightening measure for fiscal year 1986. Beginning in fiscal 1987, we will increase funding by roughly 4 percent per year through 1990.

The administration proposed to end Farmers Home Administration assistance for public facility construction projects. To compensate for the reduction in this assistance to communities served by Farmers Home, we would change the split of CDBG funds between entitlement and nonentitlement categories from a 70–30 percent division to a 60–40 split. This allocation change would allow more of the community development activities currently carried out by Farmers Home to be undertaken by small communities through the State CDBG Program.

On the other hand, if the current negotiations between the administration and the Congress result in a continuation of Farmers Home assistance for public facilities construction projects, then we would propose maintaining the 70–30 split of community development block grant funds between entitlement and nonentitlement programs.

Mr. Chairman, we propose terminating one major development program, urban development action grants, or UDAG. As you know, I have been one of the program's strongest supporters. I fought for its continuation every year since 1981.

UDAG has been a good program. Over the last 4 years, UDAG made possible redevelopment projects which could not have been achieved without it. However, we have come to the point where we must reduce our budget to bring down current and outyear deficits.

To do this, the administration proposes to eliminate Federal financing and grant programs for local economic development: programs such as EDA, the Appalachian Regional Commission, and UDAG. By terminating these programs, savings to the Treasury will be nearly $2 billion in just 3 years.

It is worth noting that over 80 percent of the communities which have won UDAG awards will receive some form of debt service repayment in 1986. Looked at another way, this year, fiscal year 1985, debt service repayment to communities will amount to approximately $170 million, roughly 38 percent of current annual UDAG appropriations. This repayment increases yearly, in 1988 reaching about 50 percent of current annual UDAG appropriations. These repayments allow communities to carry on new economic development activities.

Our budget proposes expanded authority and outlays in one key area: fair housing. After 17 years of experience under the Fair Housing Act, it is all too apparent that housing discrimination continues to plague our Nation. Because discriminatory practices have become sophisticated and subtle, they have become more difficult to detect.

The President and I are determined to confront these insidious practices and remove barriers which unfairly discriminate against minorities and women. We are proposing a Fair Housing Initiatives Program to be funded at $10 million for fiscal year 1986. This will be part of an expanded national effort to focus on the problem of discrimination in housing by utilizing both public and private resources and energies at a grass roots level.

We want to strengthen the capacity of State and local agencies, both public and private, to use judicial and administrative processes to more effectively fight discrimination. When FHIP is enacted, our funding criteria will be carefully drawn to ensure that taxpayers' money supports only those organizations which function responsibly to ferret out unlawful discriminatory practices.

In addition, we will continue our existing Fair Housing Assistance Program at a funding level of $5 million. This brings the total budget authority for fair housing programs to $15 million, up from $6.7 million in 1985.

As you know, the President and I have long recognized that we need to strengthen the enforcement provisions of our fair housing law. The issue of fair housing transcends partisan concerns. Stronger fair housing enforcement will be a major legislative effort for us this year.

Another priority is enacting Federal enterprise zone legislation. Enterprise zones are targeted to areas of the country that are severely distressed. Surrounded by extreme poverty and unemployment, these areas are not benefiting from the current economic recovery, nor are they likely to in the foreseeable future.

Enterprise zones can help alleviate the severe problems in these areas. With Federal tax and regulatory relief added to State and local incentives, private sector capital will be attracted to our distressed communities. Enterprise zones can help us to replace poverty and despair with jobs and hope.

I know this committee and the rest of the Senate, indeed the entire Congress, face a critical challenge in balancing the needs of the American people with the serious threat which budget deficits pose for the economic health of our country.

My staff and I will work with you to achieve the most equitable balance possible.

I am convinced we can bring the Federal budget under control. And doing so will help us insure that the fruits of our prosperity are shared as widely as possible, especially with those with the greatest need.

I want to thank you for inviting me to present our budget and legislative proposal to this committee. Now I shall be glad to respond to any questions you and members of the committee may have.

HUD BUDGET FREEZE

Senator GARN. Thank you, Mr. Secretary. First of all, let's go back to something I said in my opening statement. I outlined very generally and very quickly the President's proposal, but then the Senate Republican/White House proposal, with new and different positions float by me most every day as discussions go on. Right now, I am not sure what a budget freeze means for HUD. I am getting it at both levels, both the authorizing and appropriations levels.

Can you outline for me your understanding of a freeze proposal, what discussions may be underway with OMB in terms of recommending individual program levels?

Secretary PIERCE. What a freeze means to me is that we keep our programs at the same level they were in the previous year. What we are engaged in now with OMB and, indeed, with the Congress, is not what I would refer to as a freeze. We are trying to work out an agreement as to what the budget for 1986 should be. To me that is not a freeze.

Senator GARN. I would agree. That is why I am confused. Freeze means to me exactly what it does to you, that you freeze all the programs at a certain level. We hear that talk every day. Certainly on the nightly news we hear about it. But I don't know what individual program levels are.

Every fiscal year I have been able to put this budget together. As you know, it has not been part of any continuing resolution. It has been passed and signed into law by June. We haven't had to play those silly games at the end of the fiscal year. I have had some idea of where we are going.

Right now, I don't know where we are at. I am chairman of both committees and I don't know. [Laughter.]

People ask me every day and I say, "Gee, I don't know; I have no idea." I am just kind of sitting back. They say is it because you have been off in space? I haven't missed anything while I have been gone. [Laughter.]

I left 3 months ago and the debate is the same. I mean have you been having fun, Al, while I have been gone.

Senator D'AMATO. I have enjoyed watching them, Jake.

Senator GARN. I mean I am really serious. Three months have passed and the press keeps saying, "What are you missing?" Nothing. The newspaper accounts were the same every night, when I was here for 3 weeks in between. So I don't know what I have to ask you at this point, or whether you have questions. [Laughter.]

Senator D'AMATO. That is better yet. Does he have questions?

Mr. Secretary, do you have any questions? [Laughter.]

Secretary PIERCE. Let me tell you, almost daily I have questions, because this idea of trying to work out where we are and where we are going and what is going to happen is a daily affair.

Senator GARN. That is why always before I have had some questions to ask you, but the answers will change by tomorrow. So I doubt very much that Congressman Boland and I can pull it off again this year and have it completed, a HUD-Independent Agencies budget signed into law by June by the President. Maybe June 1986, but I doubt June 1985.

Anyway, I understand the situation. I hope that some order and sense will develop as quickly as possible so we can start to proceed with program levels, because obviously people flip these terms around about budget freezes, and we are not going to have a budget freeze. Whatever the discussions are, out of all this, there simply isn't going to be a budget freeze in this Department or any other. We are going to go back to individual program levels and decide who gets what.

Secretary PIERCE. That is it.

Senator GARN. But I don't know when.

Secretary PIERCE. Well, we are trying every day. Each day it seems there is a little change somewhere.

IMPACT OF TAX REFORM ON HOUSING INDUSTRY

Senator GARN. Let me try some other areas. [Laughter.]

The housing industry certainly has been very active in expressing concerns over the potential impact of comprehensive tax reform. Housing traditionally has been a principal beneficiary of Federal tax expenditure assistance. To the extent a flat tax is enacted, dramatic shifts in housing finance and availability may occur.

It is my understanding that the Office of Policy Development and Research has some analysis underway in this area. Could you explain what you think the impact would be of some of the proposals, and the role that HUD is taking in the formulation of the administration's tax reform plans in this area?

Secretary PIERCE. Yes. We are very aware of the tax proposals that are being offered, not only by the administration but by various Congressmen. The Office of Policy Development and Research has been working very hard in this area, as the tax proposal has an impact on various elements of the housing industry. We have met with groups of low-income renters, developers, builders, and investors to get their thoughts on tax reform.

We at HUD are most interested in one phase of this tax proposal particularly, or in one part of it, and it is the part of the tax proposal that will have an impact on the construction of housing for low-income renters. That is very important to us.

You know, we have changed the housing policy at HUD. When I came to HUD, as I mentioned in my opening remarks, we had a great deal of building going on. We had the Section 8 New Construction Program, which was the key building program. That program cost the Government a great deal of money.

After making various studies, we decided that this could be better done through a voucher system because in the Nation as a whole there was no shortage of rental housing. There were some shortages in local areas and certain communities that we could take care of through rehabilitation and small building programs, but there was no nationwide shortage of rental housing. So we decided to have vouchers become the basic part of our housing program. A voucher program depends on there being rental housing in existence and that this rental housing will continue to be in existence.

Now, if certain parts of the tax reform proposal come into effect, they will discourage people from investing money in housing constructed for low-income renters. This will be detrimental to our program. The Voucher Program will then not be as effective and we will find ourselves being forced back into the old building program. And ironically, I think if we get back into this old building program, it will cost more than the so-called tax proposal will save.

We are working on that now and trying to get it down to actual dollars and cents. But that is where I think we are headed. So we are very interested in the tax reform proposal because it directly affects one of HUD's principal programs.

Senator GARN. Senator D'Amato?

SUBMITTED QUESTIONS

Senator D'AMATO. Thank you very much, Mr. Chairman. Mr. Chairman, I have two questions which I ask be submitted for the record, not wishing to take the time of my colleagues.

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR D'AMATO

Rural Housing

Question: The budget initiative to eliminate housing assistance programs under the Farmer's Home Administration would give you added responsibility for providing housing assistance to rural populations. How would you provide this assistance to populations located a great distance from your field offices?

Answer: FmHA would continue to administer its loan portfolio and the Section 521 rental assistance program. The budget initiative does not envision closing all FmHA county offices.

The Section 8 Housing Voucher program would be the main source of housing assistance for HUD. This program, like the Section 8 Existing program, is administered at the local level by over 2,000 PHAs as well as State agencies. Therefore, distance from a HUD Field Office should not be a factor. The Housing Voucher program is expected to be as effective in nonmetropolitan areas as the Section 8 Existing program has been.

A small PHA/Rural Area demonstration will target 3,000 vouchers to small PHAs and rural areas in 1985 to encourage the new program, and to evaluate its effectiveness in these situations.

In 1988, HUD would increase the proportion of all rental housing assistance to be allocated to nonmetropolitan areas to 50 percent.

Question: I know that you have fought for the Urban Development Action Grant (UDAG) program since 1981. However, due to the Federal deficit, it has been proposed for termination.

— The UDAG program has benefited many cities both large and small, in my State of New York, including Elmira, Corning, and Dunkirk among others.

I imagine there are cities in other States throughout the country that have also benefited from this program. Would you cite a few of these success stories?

Answer: Following are four examples of successful UDAG projects:

1. Recipient: Chicago, Illinois

   Action Grant: $600,000

   Private Investment: $3,172,089

   Ratio: 5.3

   New Permanent Jobs: 146

   UDAG Per Job: $4,109

Annual Property Tax Increase: $280,266

Other: $240,000

Announcement Date: October 10, 1980

Status: Completed

Description: The Action Grant provided permanent financing for the development of a neighborhood shopping center. The Kedzie Plaza Center has a 45,600 square foot grocery store and a 13,000 square foot drugstore as anchor tenants. This center is located at 47th Street and Kedzie Avenue in the Brighton Area of Chicago.

As a result of this project, the adjacent commercial area has been upgraded and new businesses have moved in.

2. Recipient: Fresno, California

Action Grants: $700,000

Private Investment: $2,943,466

Ratio: 4.2

Permanent Jobs: 100

UDAG $ Per Job: $7,000

Annual Property Tax Increase: $41,063

Other Tax Revenue: $32,306

Announcement Date: September 30, 1982

Status: Completed

Description: The Action Grant was awarded to assist the Chihuahua Development Company construct a 60,000 square foot mix-use facility to be used as office, retail and light manufacturing space. The Action Grant permitted this minority-owned company, the largest tortilla manufacturer in the San Joaquin Valley area, to expand its manufacturing and retail operation.

3. Recipient: Provo, Utah

Action Grant: $2.2 Million

Private Investment: $9.7 Million

Ratio: 4.4

New Permanent Jobs: 180

UDAG $ Per Job: $12,222

Annual Tax Increases: $182,000

Announcement Date: January 10, 1980

Status: Completed

Description: The Action Grant was used in part as a loan to Provo Plaza Ventures, Limited to help construct a hotel with convention facilities and in part as a grant by the city to build a parking garage. The overall complex is now complete and has had a significant effect on the development of Provo and the triggering of other private investments.

4. Recipient: Cando, North Dakota

Action Grant: $1,028,800

Private Investment: $7,262,500

Ratio: 7.1

New Permanent Jobs: Over 110

UDAG $ Per Job: $10,288

Announcement Date: May 7, 1979

Description: This Action Grant for Noodles by Leonardo, enabled a small rural community (population approximately 1,500) to plan, finance and construct an industrial project which capitalized on one of its major agricultural products, durum wheat. Durum which is the main ingredient in pasta and 85 percent of all durum wheat produced in the U.S. is produced in a six county area in North Dakota. By constructing an integrated mill and processing plant to manufacture pasta products these functions could be completed at one site.

The spinoffs from this project have had a significant effect on Cando's economy as it has triggered other private investment both with UDAG assistance and without it.

Question: Mr. Secretary, I would like to know what happens to these and other cities that need the UDAG program, if we end it?

Answer: Cities will have to find other ways of trying to attract private investments. Some cities which have received several UDAG grants in the past will be able to use the repayments of loans made to private developers to fund future UDAG-type projects, once these repayments have accumulated sufficiently.

Question: Are we to end the UDAG success stories of our cities and communities?

Answer: The value of programs which foster local economic development must be balanced against the Federal budget deficit which threatens to undermine the health of the National economy. The President's Budget calls for the reduction or elimination of specific programs in order to strengthen the economy as a whole.

ELIMINATION OF URBAN DEVELOPMENT ACTION GRANTS

Senator D'AMATO. But I would like to make a statement and an observation. It has to do with the elimination of the Urban Development Action Grant Program.

I can't think of too many programs that have been as effective in helping our urban centers, our small cities, and our larger cities, than the UDAG Program. I would note that it started out with quite a bit of controversy and that there were many shortcomings. Then over the years the program has been refined. It has been brought to a refined state, whereby we don't see the kinds of abuses that initially surfaced, the horror stories, with the leveraging of private dollars to the Government dollars in terms of loan programs; instead of the outright grants, which I think make very effective sense, in terms of the return that communities now get. This is a rather modest investment in total dollars that should be continued.

One of the things that I have done is attempted to draft some legislation that would remedy a problem that presently exists, the problem where some of the areas of the country say no matter how good our application is, because we don't have the older distress factor in terms of housing, we never have the opportunity to participate.

Indeed, I think that there is something that should be considered with respect to that. So, consequently, we are developing a legislative proposal with a number of my colleagues, on both sides of the aisle, and on other committees as well, that gives recognition and would give a greater share of moneys to those grants, taken strictly on the basis of project specific measures, criteria would not be based solely upon distress or impaction. I would hope that we could forge, No. 1, a majority in the Congress to continue the Urban Development Action Grant Program, giving due deference to the fact we should grant some of these applications to those cities notwithstanding the distress factor.

Now let me ask you one thing. What is your thought with respect to attempting to set up a two-pot system; one giving recognition to distress and impaction, the other simply in terms of project specific measures.

Secretary PIERCE. Let me start by saying of course the administration is——

Senator D'AMATO. We know that. That is Mr. Stockman, OMB. We have heard that before. We are not going to buy off on that.

Secretary PIERCE. I agree with you that there needs to be some change in the formula, that the time has come when there must be a change in the formula. What I would like to say is not specifically what we think that formula should be, but if Congress gets in the position where they are definitely going to go ahead with the UDAG Program, we would be most glad to help and give our input to the formulation of a new formula.

FORMULA FOR GRANTS

Senator D'AMATO. Giving recognition, again, that there are some cities, no matter how good their application, in terms of number of jobs created, private dollars invested, and the leverage ratios, they just simply——

Secretary PIERCE. Yes. Under the present formula, it is very difficult to reach them. The further west you go, it is more difficult, and certain places in the South. It is very difficult to reach them under the present formula, there is no doubt about it. The program benefits greatly the Northeast and the near Midwest. They are the places most benefited.

So to get the country as a whole in the ballgame, there needs to be a new formula.

Senator D'AMATO. I think, Mr. Secretary, it is fair to say with that, we will be looking for the kink of support necessary to keep the Urban Development Action Program.

Secretary PIERCE. I would think so. I would think that would be the case.

Senator D'AMATO. One further area, Mr. Secretary. There has been a lot said about the size of some of the Urban Development Action Grant Programs. A number of my colleagues feel if there was a cap on the size of some of these grants, that would give greater distribution to a larger number of applicants. What is your feeling with respect to that?

Secretary PIERCE. You would have more cities and localities that would participate.

Senator D'AMATO. For example, should a city be able, whether it is New York or any other city, to get a grant of, let's say, $40 million or $20 million?

Secretary PIERCE. You have to think very carefully about this because there have been some very large grants given that were very significant and very important, I think, to the country's economy, such as the automobile grant out in the Detroit area that was given, which was very helpful to maintaining jobs and helping the automobile industry when it was very much down.

You have to think about it, but I don't think that cap can be too low. I mean I wouldn't like to see a cap of, say, $1 million. You are going to give a lot more grants, but I don't think we would have as effective a program.

Senator D'AMATO. What about a cap in the area of, let's say, $5 million?

Secretary PIERCE. I would even worry about that. Maybe I would be closer to something like $10 million.

Senator D'AMATO. Something like $10 million?

Secretary PIERCE. Yes.

Senator D'AMATO. We are making progress. [Laughter.]

Mr. Secretary, let me say that under some very difficult circumstances, I think you and the HUD people have done an extraordinarily effective job. It is easy to criticize our agencies, but I think many of the horror stories of the past have been corrected by HUD. You have made HUD dollars go a lot further with private sector leveraging programs. I simply want to commend you for this. Under extraordinarily difficult times, in a year of cutbacks you have shown that you can get the job done. I am not suggesting that urban development action grants should not be cut. There may have to be some cuts there. But I think a total elimination at this point in time would be inappropriate.

Thank you, Mr. Chairman.

[The statement follows:]

STATEMENT OF SENATOR D'AMATO

Mr. Chairman, I am pleased to join you in this oversight hearing on the U.S. Department of Housing and Urban Development. I would like to commend the Secretary for the fine job his Department has done. Contrary to popular belief, however, the work of the Department of Housing and Urban Development must continue.

Over the past 50 years, the Federal Government has played a major role in housing. Government assistance has been provided in a variety of ways, especially assistance to revitalize and renovate our communities.

It is unrealistic to now assume, however, that our communities are no longer in need of Federal assistance. The Federal Government must continue to maintain housing and urban revitalization as one of its highest priorities.

The Urban Development Action Grant [UDAG] Program is a perfect example of a Federal program that helps our communities and that should be continued. It demonstrates that jobs can be created and revenues can be generated to enhance the development of our communities. It is a perfect example of a great public/private partnership.

Unfortunately, there is controversy regarding UDAG selection criteria: it focuses on the relative weight given to economic impaction, distress, and project specific measures. The resolution to this problem involves the funding of all UDAG eligible cities. At present, 30 percent of the composite project grant is determined by project quality, including private investment, leverage, number of jobs created, and so forth. Thirty percent of the points are linked to applicant distress, based on per capita income, unemployment, and job/lag decline. And 40 percent is determined by the applicant's impaction, which is based on pre-1940 housing.

There are several proposals to change the UDAG formula: These include (1) capping the dollar size of UDAG awards to make sure large projects do not absorb a disproportionate amount of the annual appropriation, (2) limiting the number of awards to each applicant, per round, or limiting the total amount of UDAG funds a city could receive in any given year, and (3) changing the selection criteria so that project specific measures have more weight in the selection process. I am examining all these proposals, because I am determined to keep the UDAG program alive.

In recognition of the national need for this important program, I have asked my colleagues in the Senate to join me in considering these proposals, especially the option known as the "two pot" system. Under this proposal, a portion of the funds would be provided using the current formula. The other pot of funds would be provided solely on the basis of project specific measures.

I firmly believe that our communities are deserving of the Urban Development Action Grant [UDAG] Program. Our communities should be encouraged to carry out economic development activities vital for U.S. growth and prosperity. The UDAG success stories of our communities should not end.

Mr. Chairman, the conditions that gave rise to the need for the Farmers Home Administration in 1949 also still exist. We need the continuation of rural housing programs that serve families and the elderly who are unable to obtain credit from private lenders. It provides growth to the economy. Every Farmers Home Administration unit creates 1.4 man-years of employment. The projected 60,000 units to be built this year would produce a billion dollars in taxes and wages.

I am concerned about the effects a transfer of the Farmers Home Administration's to the Department of Housing and Urban Development would have. At present, Farmer's Home includes 1,930 county offices, 270 district offices, and 46 State offices. Are we to suggest that families needing assistance should travel up to 300 to 400 miles to reach a HUD field office? I should hope not.

The Federal role in housing must continue. The Federal Government should take an active, advocacy role in housing development and rehabilitation that is cognizant of the needs of our citizenry.

Thank you, Mr. Chairman.

Senator GARN. I just have one question of the Senator from New York. If New York seceded and became a foreign country, would you do better on foreign aid?

Senator D'AMATO. I think so. [Laughter.]

And we will take a look. But I want you to view us as hostile and as an enemy, then we will do much better. [Laughter.]

Senator GARN. Senator Lautenberg?

RATIONALE FOR ELIMINATION OF UDAG

Senator LAUTENBERG. Thank you, Mr. Chairman. I think New York does better where it is. It gets more than the foreign aid program altogether. But we are happy to see it because it is good for the region. Senator D'Amato and I agree on that. I am sure Secretary Pierce does, too. I think he has roots that center in our area. He understands intimately the problems of retaining and developing an economy that has an old infrastructure and, therefore, desperately needs the kind of private capital that is developed as a result of the UDAG program.

Mr. Secretary, I just want to make certain that the view you held on UDAG some time ago still prevails, the value of the program, without Mr. Stockman's influence or without any other considerations, just the merits of the UDAG Program in terms of job creation, in terms of attracting private investment.

You do support the program as an ongoing program minus the budget factors on the other side; is that correct?

Secretary PIERCE. I would like to make it very clear that the position that has been taken by the administration, which I support, is that there are certain programs that should be eliminated because we are trying to fight the deficit problem, the budget problem. Not that I believe UDAG is a bad program. I think it has been a good program. But when it comes down to whether we should have UDAG or whether we should reduce the deficit, then I would have to go on the side of trying to reduce the deficit.

Senator LAUTENBERG. There are ways, Mr. Pierce, for reducing the deficit. One is by creating revenues, whatever that revenue system is, and the other is by eliminating programs. What we have to do is get, if not the arithmetic balance, certainly the functional balance, the operating structure, that does the job most effectively.

Now I think you have said that UDAG programs, conservative estimates, place increased taxes and cost savings at something close to a billion dollars a year compared to the annual appropriation of $400 million, and I believe that the revenue continues to flow and the expenses stop at the end of a given year's program. Is that not a fair thing to say?

Secretary PIERCE. I think generally that is correct. What I would like to do is to put a short statement in the record summarizing what UDAG has done since I have been in office. I think that would show precisely where we think it stands.

[The information follows:]

ACCOMPLISHMENTS OF UDAG PROGRAM

Since the inception of the program (and as of April 30, 1985), there have been a cumulative total of 2,480 UDAG projects awarded to 1,094 large and small cities for a total of $3.8 billion in UDAG funds. These funds have leveraged $22.1 billion, producing a ratio of $5.80 private investment to $1 of UDAG. These projects will generate $526 million per year in local taxes, create 490,000 new permanent jobs, and retain over 121,000 jobs for distressed cities.

During the Reagan administration, the following benefits have occurred:

—There have been 1,648 public/private economic development projects in 588 small cities and 249 large cities with Action Grant Program funds of $2.2 billion;

—private investors have committed over $12.8 billion of private investment in distressed cities;

—the 1,648 UDAG projects will create 247,000 new permanent jobs, retain 39,000 jobs, and create over 204,000 construction jobs including 132,000 lower income jobs and 50,000 minority jobs;

—over $281 million net new property and other tax revenues will be generated annually; and

—over 3,000 contracts have been awarded to minority firms with a value of over $500 million in minority contract dollars.

Put another way, during the Reagan administration, the Action Grant Program has:

—Leveraged $5.80 of private investment for every $1 of action grants;

—generated $0.09 of annual property tax revenues to distressed cities for every $1 of action grants;

—created new permanent jobs at an average action grant cost of $8,900; and

—resulted in 56 percent of the new permanent jobs going to lower income people and 18 percent for minority jobs.

These are only the direct results of the program. The majority of the grants have secondary or spinoff effects which lead to several-fold more in private investment, jobs, and tax revenue to distressed cities.

Senator LAUTENBERG. Again, I don't want to offend you, if you disagree. I think you support the notion or the concept that some leveraged Government capital into the private sector, with a significant multiple, works well. Again, if you disagree with me, please say so.

Secretary PIERCE. No, I can't disagree with that because I have four statements very——

IMPACT OF UDAG GRANTS ON JOBS

Senator LAUTENBERG. And you have redefined it several times. Absolutely right. I think there is an estimate that says that $400 million, Mr. Chairman, of UDAG appropriations or expenditures are expected to result in over 230,000 permanent jobs, 36,000 retained jobs, 128,000 lower income jobs, 59,000 jobs for minorities, and the list goes on, substantial increases in local tax revenue. The sum of $450 million encourages, and I again think these are your statements——

Secretary PIERCE. Well, I don't know. I did make a statement I think before the Budget Committee. Maybe it is that. I don't know the exact numbers. But we will put them in the record.

[The information follows:]

LEVERAGING ACHIEVED BY A $440 MILLION UDAG APPROPRIATION LEVEL

Based on program data for fiscal year 1984, a $440 million UDAG funding level will achieve the estimated leveraging as follows: 50,000 new permanent jobs; 30,000 jobs for lower income persons; 40,000 construction jobs; $2 billion in private investment; and $40 million in local tax revenue.

Senator LAUTENBERG. The transcription is reliable, I assure you. And $11 billion-plus in private investment. It is a very worthwhile program.

The question is, I agree with you, how do we reduce the budget? I think we reduce it—here is one of the few places I agree with the President—one is by generating more economic activity. It throws off taxes even at the present level and helps reduce the deficit.

Mr. Secretary, on a more specific thing, I am sorry my colleague from New York is not here because we have had some tete-a-tetes, I think would describe, on this issue.

Secretary PIERCE. I guess he had to go out and work on the budget, Mr. Chairman.

Senator LAUTENBERG. I am sorry?

Secretary PIERCE. I said I guess he had to go out and work on the budget.

Senator LAUTENBERG. You don't think I sent him out to work on the budget. I prefer him here.

On March 4, I and other New Jersey and New York officials submitted comments to you regarding the end of pirating policy you issued on January 9.

I didn't want to disappoint you. I thought you would like to have a question or two on this. [Laughter.]

Is there any alteration of policy or view as a result of those comments?

Secretary PIERCE. We have those under consideration. As a matter of fact, I expect to have another meeting of the members of both sides, New York and New Jersey.

Senator LAUTENBERG. What time is that, sir? [Laughter.]

Secretary PIERCE. We haven't set the date, but we want to have it before the May round of UDAG and talk a little more about this before we finalize our own thinking on it.

IMPACT OF JANUARY 9 ANTI-PIRATING POLICY

Senator LAUTENBERG. I would appreciate that. I would also appreciate your continuing interest in responding to that. It is very important.

How many UDAG eligible localities are affected by the January 9 decision?

Secretary PIERCE. By the January 9 decision?

Senator LAUTENBERG. Yes.

Secretary PIERCE. You mean our decision on that?

Senator LAUTENBERG. Yes. The antipirating policy, so-called.

Secretary PIERCE. I couldn't tell you off the top of my head. I would have to get that information and would be glad to put it in the record.

Senator LAUTENBERG. Are any of the staff people able to answer that?

Secretary PIERCE. I do not know whether the CPD people who are here have that information immediately available.

No, we don't have that information. We would have to put it in the record. We don't know the number exactly.

Senator LAUTENBERG. That doesn't sound like the kind of number that would require extensive data banks to get. I would think that is something that is currently——

Secretary PIERCE. The question is not just with New York and New Jersey. We think there are other places in that 50-mile radius. So it is not just New York and New Jersey. That is what we think, so we want to check that.

[The information follows:]

UDAG ELIGIBLE LOCALITIES AFFECTED BY JANUARY 9 DECISION

The January policy statement potentially could affect any UDAG-eligible community that proposes a speculative project and that is located within 50 miles of another UDAG-eligible community which is not located within the same Metropolitan Statistical Area as the applicant. We do not have a complete list of all UDAG-eligible communities that meet this geographic description—there are over 10,400 UDAG-eligible large and small cities—but a few examples of UDAG-eligible communities that do meet the description are:

Wilmington, DE, and Philadelphia, PA; Chicago, IL, and Gary, IN; San Francisco and Oakland, CA; Boston and Salem, MA; New Haven and Bridgeport, CT; New York, NY, and Hoboken, NJ; Flint and Pontiac, MI; and Portland, OR, and Vancouver, WA.

The foregoing communities meet the geographic proximity test. Of course, whether or not the policy statement would actually have an effect on any of these communities that proposed a speculative project would depend on whether the UDAG-eligible community in the pair could demonstrate the existence of the external circumstances—significant current pattern of job movement to nearby areas, likelihood of continuation of such a pattern—that give rise to the presumptions described in the policy statement. We do not know whether those circumstances exist in the case of any of the above pairings, or in what other cases they may exist.

Senator LAUTENBERG. Mr. Secretary, included in the definition or the factors in consideration of UDAG grants there is the economic distress factor. Neither the statute nor the regulations define what economic distress means, when it occurs, under your policy. I think there was reference that may have escaped me in response to Senator D'Amato. How do you define economic distress?

DEFINITION OF ECONOMIC DISTRESS

Secretary PIERCE. There is a definition of economic distress and it is in the regulations. Let me have somebody from CPD give you that.

Mr. Moran. For the record my name is Alfred Moran, Assistant Secretary for CPD.

Senator Lautenberg, economic distress includes unemployment and other demographic economic factors peculiar to a given locality as defined in 24 CFR 570.452.

Senator LAUTENBERG. So is it possible to use any kind of an arithmetic definition, a given percentage? There ought to be some specific yardstick that we can use that says OK, listen, we know this is clearly in violation of the intent or that perhaps this is a gray area or this ain't going to matter, as they say. The question is of significance.

Now, the Economic Development Administration has antirelocation rules. They say that if five-tenths of the employment base is threatened, five-tenths of 1 percent, half of 1 percent, of the employment base is threatened, that is significant and adverse. Does that sound like a reasonable number?

Mr. Moran. Are you talking about significant adverse impact?

Senator LAUTENBERG. Yes.

Mr. Moran. I am not familiar with the EDA regulations offhand.

Senator LAUTENBERG. Well, just taking that arithmetic barometer. You know, the point I want to get to is the decision made by the Secretary in terms of the New Jersey-New York situation that led to the policy declaration on January 9.

I mean we are talking about a de minimis kind of thing. If it at all had any effect, we are talking about 1,000 jobs or 1,300 jobs out of a city with 3.4 million people employed. You know, to us it looked discriminatory.

Secretary PIERCE. I think you have to look at that as a whole. Let's not play games. What is happening is New Jersey is trying to attract many, many businesses, not one, but many businesses from New York, and that is what is being done.

We are saying that is fine, you can do that, but let us not use UDAG money to do that. That is what this is all about. Not just one business. It is a total pattern that is being looked at. It is not just one.

That is why this never really became a problem before, with New Jersey and New York, because actually it has been one here and one there. But this is a designed program where people from New Jersey come over to New York, to the New York businesses, and tell them, "Come on over to New Jersey; we have this and this." It is an actual raiding process.

Senator LAUTENBERG. Mr. Secretary, with all due respect——

Secretary PIERCE. And that is fine, sir, if you do it with your own money.

Senator LAUTENBERG. Mr. Chairman, am I the witness? [Laughter.]

The gamesmanship. I submit to you, Mr. Secretary, in all due respect, when you are talking about a city that has in the last decade developed 80 million square feet of office space and 30-some million square feet on the books, and New Jersey in the same period of time and its surrounding communities on the waterfront has developed about $3 million worth of office space or commercial space with which to develop jobs, we are not talking about raiding New York.

I mean the fact of the matter is that the objective of this policy is to keep companies from relocating to different regions. If we can keep them in the region—you know very well, you know the area particularly well, that our problems are regional problems. We are not looking to benefit at the expense of New York, and certainly that is indicated by the progress in the two areas. Just stand on one side of the Hudson River and look west and stand on the other side and look east and you see one hell of a different developmental picture.

Some part of that involves UDAG funds, legitimate use of UDAG funds, because of companies like Bankers Trust and others. You know very well I come out of the telecommunications business. If they want to locate a processing facility, they can put it in South Dakota, as we have seen from a New York City plant.

IMPACT OF UDAG GRANTS ON DISTRESSED AREAS

Secretary PIERCE. But don't forget, the rule is you don't raid another distressed area.

Senator LAUTENBERG. I cannot be accused of condoning raids. I can, however, participate in saying that if you are going to leave the city, by God, we want you to think about New Jersey and we want you to think about Connecticut and we want you to think about other places in the region. If companies are being driven out of New York City because they can't afford to operate there, we have to have a place——

Secretary PIERCE. Nothing wrong with that. Nothing wrong with your thinking. Agreed completely. But we don't believe that maybe UDAG money should be used to take a business from one distressed area to another.

Now, as far as somebody leaving on their own initiative and on their own money to go to New Jersey, Connecticut, et cetera. That is the process of free choice.

Senator LAUTENBERG. It is a free movement of commerce.

Secretary PIERCE. Right.

Senator LAUTENBERG. On the other hand, these programs are designed to help distressed areas.

Secretary PIERCE. But not to hurt another distressed area.

Senator LAUTENBERG. Mr. Secretary, are we going to play games with a definition?

Secretary PIERCE. No, it is a real thing.

Senator LAUTENBERG. Of course it is a real thing. But the objective of the law originally was to keep regional movement down to a minimum and not to encourage that. And when you look at the definition of what constitutes movement, it is very clouded. And the decisions, unfortunately, are in your hands at this time, and suddenly we had a new factor introduced and where there was generally economic peace and a recognition that we had to go ahead and do the regional development together, suddenly now we are at each others throats.

It is a damn mistake and I am sorry it happened that way. I hope as you revisit this—we have had the court decision in New Jersey most recently.

Secretary PIERCE. The court decision said nothing.

Senator LAUTENBERG. Absolutely right. It didn't settle the issue one way or the other. So I am hoping that the suggestion that we are going to wait for the courts to make the decision now has passed us and we get on with our review of this issue.

Secretary PIERCE. I would like it if we could work it out. I hope we can. I hope both sides will agree.

Senator LAUTENBERG. I am available for lunch. [Laughter.]

Secretary PIERCE. We had one situation which we did work out over there that affected Jersey City. We were able to work it out, with both sides in agreement. We will see what we can do. But there is this difficult problem. The general idea is people can move wherever they want to. But it shouldn't be the U.S. Government that helps them move.

Senator GARN. Senator Leahy.

INCREASE IN HUD OUTLAYS

Senator LEAHY. Mr. Secretary, the President in his State of the Union message—and you and I were there—said that the scope and scale of Federal spending must be drastically cut back to reduce the deficit. I happen to agree with the President on that.

But that same day your own budget showed a pretty significant increase in spending. It went in 1984 from $11.3 billion to in 1985 $24.7 billion. That is not really so much an increase in your budget as it is a $15.4 billion increase in the deficit.

Why is that?

Secretary PIERCE. My own budget went from where?

Senator LEAHY. $11.3 billion to $24.7 billion. Outlays.

Secretary PIERCE. Is that in reference to the note rollover? Is that what you are talking about?

Senator LEAHY. Yes.

TREASURY DECISION ON TAX EXEMPT STATUS OF HUD NOTES

Secretary PIERCE. What happened was the Tax Reform Act of 1984 made it so that we were not able to have the usual short-term note rollover in the private sector because it was claimed the 1984 Act removed tax exemption from the note rollover process. But still, in all, we had the debt that had to be paid. So as a result, we had to get money in terms of outlays to pay the rollover. That is what we have done.

We haven't got a decision from the Treasury on the situation yet.

Senator LEAHY. Have you asked them for one?

Secretary PIERCE. Oh, of course. Right away.

Senator LEAHY. When did you ask them for one?

Secretary PIERCE. After we realized what had happened.

Senator LEAHY. August 17, 1984?

Secretary PIERCE. I can't remember the exact date. We can get that. It was done immediately.

Senator LEAHY. Let's assume it was August 17, 1984. I think you will find, if you check back, that was the date. It would be safe to say some time ago. You did it immediately, and this thing was back——

Secretary PIERCE. As soon as we realized it, we did it. It was almost immediately. As soon as we examined the law, we did it. It was done immediately.

Senator LEAHY. Let's see what happened. That was back in August. So in September there wasn't an answer back on it. That month you spent $900 million. Then October 2 there hadn't been an answer back so you spent $1.6 billion. October 30 there hadn't been an answer back so you spent $1.4 billion, using the figures from your Department. November 27, there hadn't been an answer back and you spent $1.75 billion. On December 27 there hadn't been an answer back and you spent $1.8 billion. January 29 there hadn't been an answer back, this year, so you spent $1.2 billion. March 5 there wasn't an answer back so you spent $1.27 billion. April 2 there hadn't been an answer back and you spent $1.30 billion.

If we don't get any answers back in June, July, and August, you will spend in June $657 million, in July $614 million, and in August $321 million, for a total of $12.8 billion.

I know sometimes the Post Office is slow.

Secretary PIERCE. It is not a matter of slowness of the Post Office. Very simply, the Treasury Department has not given us an answer.

Senator LEAHY. Mr. Secretary, let me finish my question, please.

Secretary PIERCE. All right.

Senatory Leahy. The Secretary of the Treasury, both his predecessor and the current one, are very nice people. I know they have always returned my phone calls when I called. You see them in regular weekly Cabinet meetings. We are talking about $13 billion. Can't you get them to speed up an answer one way or the other?

I am not asking you to tell them how to make the answer, but I can't believe with all the people they have down there you can't get an answer.

Secretary PIERCE. May I say something?

Senator LEAHY. Sure.

Secretary PIERCE. I used to be General Counsel of the Treasury, so I have a good idea of what goes on in the Treasury. Sometimes these things are quite complicated and it takes a long time to get an answer. It is not simple.

We have been sitting on them. Our people have been with them. It is a very difficult thing. But I might say this: We believe the way things are going, if you take it from a long-run point of view, we will do better by having the money paid directly rather than having the rollover situation. Over the years we will do better. The situation is going to be turned, we think, into an opportunity.

Senator LEAHY. You are saying in the long run it is going to be better. We are both lawyers. If we had a client who couldn't pay his bills in 1985, would you advise him to pay off in cash the mortgage on his house, which is basically what this is?

Secretary PIERCE. I don't think the two are comparable.

Senator LEAHY. Of course they are. The Government can't pay its bills and yet it is paying out the mortgage on the house. I think there is a parallel.

You know, it may not seem like an awful lot of money, $12 billion, $13 billion, but let me tell you, I come from a very little State. That is all the tax dollars that every Vermonter is going to pay for the next 25 years.

Now, you know, I just can't believe you can't get an answer quicker than that when it is that amount of money, Mr. Secretary. I appreciate maybe they would move faster if you were still general counsel there. But I can't believe you can't put the pressure on them to get an answer, one way or the other on this, I mean good or bad.

Secretary PIERCE. We have put pressure on them, sir.

Senator LEAHY. It hasn't worked.

Secretary PIERCE. If you believe it is so easy, I will ask you to try.

Senator LEAHY. I am not a Cabinet member.

Secretary PIERCE. All right.

NUMBER OF POOR PAYING 50 PERCENT OF INCOME FOR RENT

Senator LEAHY. The General Accounting Office recently released a report which found a number of poor people pay more than 50 percent of their income in rent. It has more than doubled, from $2.6 million in 1975 to $6.3 million in 1983.

Is this a trend that should be continued or reversed?

Secretary PIERCE. I didn't quite get that.

Senator LEAHY. GAO has found a number of poor people pay more than 50 percent of their income in rent.

Secretary PIERCE. Yes.

Senatory Leahy. It has gone from $2.6 million in 1975 to $6.3 million in 1983. Is that a trend that should be continued or reversed?

Secretary PIERCE. We should try to get them to pay less of their income in rent, I believe.

Senator LEAHY. All right. How would you go about doing that?

Secretary PIERCE. The best way I know is to try to improve our economy so people have better jobs, more money, and they will have to pay less rent, or a less percentage of their money will go for rent, probably.

Senator LEAHY. There is a chart over here which you have brought to the hearing. It shows the housing debt is falling. I want to make sure I read this right because I missed the early part of your testimony.

As I understand, it shows the housing debt is falling and housing units are increasing; is that correct?

Secretary PIERCE. Assisted housing is increasing, yes, and the debt is falling, right.

NEW HOUSING COMMITMENTS VERSUS HOUSING OUTLAYS

Senator LEAHY. I have another chart over here. I think this is somewhat of a different view. You can see the assisted housing outlays is the broken line. The total new housing commitment is the solid line. It shows a very sharp increase in outlays and a very steep decline in commitment to housing. It shows spending up 84 percent. It shows commitment down 97 percent.

If this chart is accurate, it seems we are spending a lot more and getting a lot less. Do you have any feeling about this?

Secretary PIERCE. I have a feeling. I don't know the basis of your chart or your figures. But I know that our chart is right. [Laughter.]

Senator LEAHY. I see. I never suggested that your agency would make a mistake. But this came from CBO. What you are saying is CBO is wrong then. If these are their figures, they are wrong.

Secretary PIERCE. No.

Senator LEAHY. It isn't?

Secretary PIERCE. I said I don't fully understand it. I would have to get the background and read about it. Then I would give you an answer to it. But I don't know right off the top of my head. I do know our chart is correct.

Senator LEAHY. Well, is it really, or is your chart correct only because you are going into some very short-term commitments and in about 4 or 5 years we are suddenly going to find either we are going to have a huge debt coming due or we are just going to take an awful lot of people off of assisted housing?

NUMBER OF PEOPLE IN ASSISTED HOUSING

Secretary PIERCE. No; we are redoing that. The debt has fallen. We are not taking people out of assisted housing. Even if we had the moratorium on, there would be 207,000 more new assisted housing units coming into existence, even with the moratorium.

Senator LEAHY. So you are saying the new housing commitment, this chart showing it going from 4.5 million units in 1981, and you can see where it drops down, to something like hundreds of thousands in 1986, is wrong?

Secretary PIERCE. I don't know the basis on which they have it, but I would say that is wrong because we believe the housing units will be increasing.

Senator LEAHY. Let me not even talk about the basis there. You obviously would know better than anybody else in this room what housing commitments are out of HUD.

I mean you have been Secretary there for 4 years now. Does that show the housing commitment during that time? Does it accurately reflect that? You must know those better than anybody else in the room.

Secretary PIERCE. In 1981, the line for housing commitment, that says the total new housing commitment. I am talking about existing. What housing units do we have? Are they increasing or decreasing? We don't say new ones coming in. We are talking about what is existing. How many housing units do we have? When we got here, there were 3.2 million. Now it is up to 3.8 million. We see it going to 4-point-some million in 1986. That is what we see.

NEW HOUSING COMMITMENT

Senator LEAHY. Mr. Secretary, maybe I made myself unclear. Is that reflective of the total new housing commitment? I mean yes or no. It is accurate or not accurate.

Secretary PIERCE. Of the new housing commitment? Let me ask.

My people will not say that it is so. We would have to get into it and look at it. No, we are not admitting to that.

Senator LEAHY. So you will respond to me on that?

Secretary PIERCE. We will have to, because we just don't recognize it and my finance people tell me it is like apples and oranges to them.

Senator LEAHY. I beg your pardon?

Secretary PIERCE. It is mixed up.

Senator LEAHY. I serve on the Agriculture Committee. I wanted to make sure I was in the right committee. [Laughter.]

Thank you.

[The information follows:]

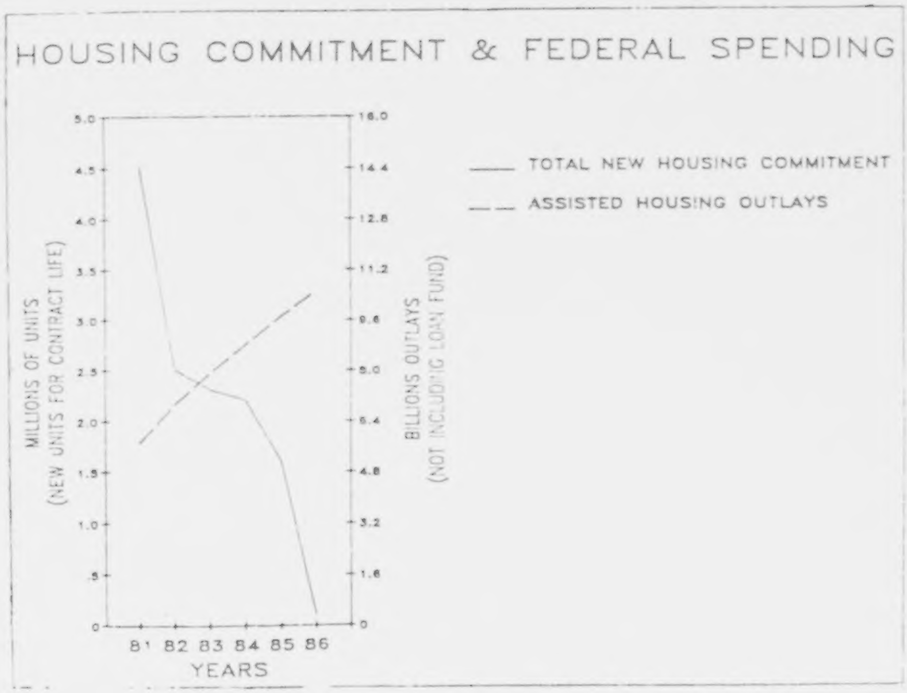
CLARIFICATION OF CHART

Staff from the Department of Housing and Urban Development have analyzed the chart which was presented by Senator Leahy at the hearing. Backup data was provided by committee staff to allow this analysis.

While the two data elements contained in the chart—if taken independently—are correct, our analysis indicates that the data represented on the graph was poorly labeled and this resulted in a misunderstanding of the data. On first examination, it would appear that one of the graph's two data elements was to represent total subsidized housing units. This is not the case. The data on the graph actually represent the number of subsidized units which were reserved in each year—1981 to 1986—multiplied by their respective subsidy contract terms. That is, assuming 1,000 section 8 existing units are reserved in fiscal year 1984 with a 15-year contract term, the "unit subsidy years"—15,000—would be displayed. This statistic provides a measure of the "unit subsidy years" which were reserved in each year but not the cumulative number of subsidized units nor the cumulative subsidized unit years. While the calculations to produce this unit subsidy year statistic are correct, the result is a concept which has not been used in budgeting and is of questionable value for analytical purposes.

What adds to the confusion is the second data element on the chart—annual subsidized housing outlays. If the chart had been comparing the growth of the subsidized inventory to the growth in annual outlays for the inventory it would have been comparing two data elements which have a direct interrelationship—total units and the outlays for those units. However, there is no relationship between outlays in a given year, or stream of years, and unit reservations for a period of years displayed in this new "unit subsidy years" statistic. There is no relationship between these two data elements.

In summary, the chart is misleading since it attempts to relate a somewhat questionable and novel static data element—annual unit subsidy years—to a cumulative element—annual outlays.



Senator Garn. Senator Proxmire.

Senator Proxmire. Senator Lautenberg was ahead of me.

Senator Lautenberg. I will defer to your wisdom, brilliance, and seniority.

Senator Proxmire. I appreciate that.

Senator Garn. He has had one round.

FUNDS FOR EMERGENCY MODERNIZATION

Senator Proxmire. Mr. Secretary, advocates assail the Administration's proposal to substitute $175 million in capital grants for modernization amounts to a substantial cut in the program and won't even take care of emergency rehabilitation activities. How did you arrive at the $175 million that was requested?

Secretary Pierce. The $175 million?

Senator Proxmire. Yes, sir.

Secretary Pierce. It was done basically by operational experience, and I have my person from Public Housing here who could get into it in greater detail.

Mr. Lindquist. My name is Warren Lindquist. I am the Assistant Secretary for Public and Indian Housing.

The $175 million was arrived at by reviewing the experience of several preceding years. In light of that experience, we believe that the $175 million will be adequate to satisfy emergency needs during the year.

Senator PROXMIRE. Is it true it amounts to a substantial cut in the program?

Mr. LINDQUIST. No, sir; the $175 million does not amount to a cut in the emergency program. In prior years we did not distinguish between the amount for overall modernization and emergency needs. The reason we refer to the moratorium in 1986 as a partial moratorium is because we will make special provision for emergency needs which might arise during the year. Therefore, there will not be a total moratorium on the provision of funds for modernization in 1986.

HUD'S OVERSEEING OF FANNIE MAE ACTIVITIES

Senator PROXMIRE. A new GAO study is very critical of HUD's failure to carry out the intent of Congress in overseeing Fannie Mae's activities.

No. 1, shortly after taking office, Mr. Secretary, you expanded the HUD unit overseeing Fannie Mae and presently have no staff dedicated solely to that job.

Second, you have chosen not to exercise your authority to audit Fannie Mae or collect that information which could be helpful to the Congress in legislating.

Third, HUD has not evaluated Fannie Mae's business strategies and how the Government's risk can be minimized.

Fourth, HUD has not evaluated whether Fannie Mae is serving the public interest.

Fifth, HUD has not submitted records on Fannie Mae for some years.

I would add one more. HUD has not, to my best recollection, come to the Congress with recommendations to clarify its role or assist Congress in dealing with the troubled financial condition of the largest housing finance institution in the United States.

How do you view those criticisms?

Secretary PIERCE. I view them as certainly not accurate. We stay in touch with Fannie Mae regularly. I stay in very close touch with Dave Maxwell, who is head of that agency. My General Counsel spends a lot of time working on Fannie Mae activities. Dave Maxwell writes us whenever he plans something new that comes within our regulatory responsibilities. We study what he is doing at all times.

Just recently we have had a study made of Fannie Mae by our Office of Policy Development and Research and that study is being used in helping with certain tax proposals being drafted by the Treasury.

So I can't agree with that at all.

FANNIE MAE AUDITING

Senator PROXMIRE. Have you audited Fannie Mae?

Secretary PIERCE. Have I audited Fannie Mae?

Senator PROXMIRE. Yes, sir.

Secretary PIERCE. No, we have not audited Fannie Mae.

Senator PROXMIRE. You have authority to audit Fannie Mae, though, do you not? It is my understanding you do have that authority.

Secretary PIERCE. I have some question about that. I would have to ask my counsel, but he is not here today.

Some of my people here today say we do have authority.

Senator PROXMIRE. But you have not exercised that authority.

Secretary PIERCE. We have not audited Fannie Mae in a technical sense. We have gone into their programs, but I wouldn't call it a audit.

Senator PROXMIRE. Have you evaluated Fannie Mae's business strategies?

Secretary PIERCE. Yes; we spent a lot of time doing that.

Senator PROXMIRE. Have you said how the Government's risks could be minimized?

Secretary PIERCE. We have worked on that, yes.

Senator PROXMIRE. Have you made your study?

Secretary PIERCE. I might say we have also given information on that to the Counsel on Economic Affairs of the Cabinet.

Senator PROXMIRE. Have you made your study of Fannie Mae available either to the Banking Committee of the Senate or this subcommittee? These are the two congressional agencies in the Senate that have jurisdiction over your operation.

Secretary PIERCE. We have not made all of our studies available, but we did make one study available. Let me ask the research people.

We sent up a study relating to TMS to the Banking Committee. We are working on another study, which we also intend to send to the Banking Committee, which will be completed shortly.

Senator PROXMIRE. Have you made any recommendations to the Congress?

Secretary PIERCE. The thing we have been worried about a lot is TMS. I know that the chairman has been interested in that. We have been working on that. We will make some recommendations, I understand, in the report that is being worked on now to Congress on a number of things.

Senator PROXMIRE. Have you evaluated whether Fannie Mae is serving the public interest?

Secretary PIERCE. I would believe so, yes. We have done that.

Senator PROXMIRE. What is your conclusion?

Secretary PIERCE. Our conclusion is that Fannie Mae is of use to the public interest, yes.

Senator PROXMIRE. Let me just ask you once again that last question because I did run through these questions pretty fast. I didn't give you much of a chance to answer.

My last one was this: HUD has not, to my best recollection, come to the Congress with recommendations to clarify its role or assist Congress in dealing with the troubled financial condition of this, our largest housing finance agency.

Secretary PIERCE. As I said, there is a study being done right now.

Senator PROXMIRE. Being done right now.

Secretary PIERCE. Now, that will come to you, I understand, quite shortly.

RACIAL AND ETHNIC DATA QUESTIONS

Senator PROXMIRE. Then I would like to ask you this: OMB has moved to eliminate questions on existing HUD and VA forms that now provide racial and ethnic data. Is this data needed?

Secretary PIERCE. Yes, it is needed for us, and we are fighting that.

Senator PROXMIRE. Have you appealed OMB's decision?

Secretary PIERCE. Yes, we have appealed this. We want that data.

Senator PROXMIRE. Where does that issue now stand?

Secretary PIERCE. Point of argument. We are arguing about it.

FAIR HOUSING BUDGET INCREASE

Senator PROXMIRE. Why are you calling for a budget increase for fair housing if everything else is being cut?

Secretary PIERCE. We think we need more money for fair housing. Fair housing is very important to our agency and to me. I want to try to do more in that area.

Senator PROXMIRE. That is very good. Explain why is it important? Why is it important to you and the agency? I agree with you, but I would like to hear how you look at it.

Secretary PIERCE. I think this Nation has gone too long playing funny games with fair housing. I think we claim we are democratic, we are free, we are equal. Then let's be. One of the areas we are playing around in most is in housing. And I call it playing around because it is a very sophisticated game. People are not getting houses because of sophisticated tricks, as I call them. So we are trying to fight that. We want it to end.

We are also trying to educate people. It is not just a matter of using enforcement powers. We want to educate people to try to get them to understand more about this so that there will be less of this. We are trying to get the people's minds and hearts in the right place. That is part of this, too, as well as the enforcement part.

CONSOLIDATION OF RURAL HOUSING PROGRAMS

Senator PROXMIRE. That is good to hear.

This is my final question. Opponents to the proposed consolidation of rural housing programs and HUD argue HUD has neither the experience nor the field staff to do rural work, unlike the Farmers Home Administration. They say it will take years and more money for you to gain both. What do you say to that?

Secretary PIERCE. We disagree with that. First of all, I think you have to understand that Farmers Home is going to continue taking care of the loans that are outstanding from the Farmers Home and the program as it exists to date. In the future, we plan to handle all of the rural areas, and we believe we can do it.

We have done a lot of work in rural areas. We have had 202's in rural and nonmetropolitan areas. We have had a certain amount of public housing in the nonmetropolitan areas. We have had section 8 existing housing programs in these areas. So we are not totally unfamiliar with the rural area, and we think we can do the work. We believe we can. And we believe we have had enough experience in those areas to carry out these functions.

Senator PROXMIRE. I appreciate that. Now, Mr. Secretary, if you would put that in the record and supplement it in any way you wish for the record, I would appreciate that.

Secretary PIERCE. All right, sir.

[The information follows:]

RURAL HOUSING

The mechanisms for HUD assistance to nonmetropolitan areas are already in place. The Department has proven experience in providing assistance to nonmetropolitan areas. More than 355,000 housing units in nonmetropolitan areas have been added to HUD's inventory of assisted housing over the past 6 years (fiscal years 1978–83). For this period, HUD allocations to nonmetropolitan areas under the section 8, Public and Indian Housing, section 202 Direct Loan, and section 235 Homeownership Programs averaged slightly more than 23 percent of total allocations.

The new Housing Voucher Program will be administered by over 2,000 local PHA's in rural as well as metropolitan areas, so that quality service already exists for nonmetropolitan areas. To make sure vouchers work in these areas, a small PHA/rural area demonstration is underway. Approximately 3,000 of the fiscal year 1985 vouchers will go to this demonstration.

Senator PROXMIRE. Finally, I do hope that if OMB says no to you on getting racial and ethnic data, you go to the President.

Secretary PIERCE. Thank you. We will go as far as we have to and maybe even to the Congress. [Laughter.]

Senator PROXMIRE. OK; that is even better. [Laughter.]

FRUSTRATION WITH HOUSING PROGRAMS AND FUNDING—MECHANISMS

Senator GARN. Mr. Secretary, let me back up a little bit and say that I believe what you will find is that both charts are correct. They are not in conflict. In this housing business I have seen so many charts over the years, 10 years on the Banking Committee, several years in local government in Salt Lake City.

So I am sure that is what you are going to find out if you analyze that. It depends on what data you are using, where you are coming from. Your chart is correct. You start with new assisted housing. I don't dispute the figures versus existing housing and so on.

And we talk about funding mechanisms. I don't like to sound like the old sage, but I have been around this housing game a long, long time, and have had great deal of frustration with HUD. Nobody has been a bigger HUD basher than I, particularly when I was mayor of Salt Lake City.

But I think if we are going to sort anything out of this, that funding mechanisms are not particularly important, deciding on how we are going to provide assisted housing is important; making policy decisions.

The first couple of years of this administration cut some $30 billion out of authorization. You could run around and brag about that and say, "Look what I did to help the deficit."

Well, it didn't help very much because of the lack of understanding of people between authorizations and outlays. When you are in long spending programs like housing, that have 25, 30, 35, 40 year commitments, you create a great deal of authorization and future commitments of the Federal Government out there, and you save very little in outlays. We could brag about what we did in the subcommittee, but in terms of outlays and impact on that particular fiscal year's deficit or expenditures, it had very little impact.

So what we are essentially paying for is that housing debt that has been created through several administrations, both Democrat and Republican Presidents, and Democrats and Republicans in the House and Senate.

We are paying the bill today for when it was easy to say, "Let's only add 38 cents here and 50 cents there. It is no big deal and don't worry about the future. I will probably not even be in the Senate 25 years from now," type of thinking.

So that is why I make the point about this discussion today. Both your charts are probably correct, but I think it misses the point. What are we going to do and what kind of policy decisions are we going to make about fair housing and equitable housing and housing for the poor? It is going to be done.

I got so sick of HUD when I was mayor I said to hell with it. I went to the Utah State Legislature and I said, "We have a problem with low-income housing in our State. I just can't wait 3 years for a decision. If the Utah Legislature will appropriate $3 million, we will match it." And in 3 months we had people in houses and off the streets.

Those are the kinds of the decisions that aren't being made by this administration. There is an attempt by Congress. So we play with charts and argue about whose chart is correct. I really don't care. I don't really think it is too important. So you get a big increase in outlays. Because of legal decisions and funding mechanisms, instead of stretching it out a few years, you are required to dump it right now. So it looks great, and look at the big expenditures in HUD.

Well, we played it the other way all of these years, with we put it off 25, 30 years so we don't have to call it outlays. There are games that go on. There are games in every administration. There are games in this Congress. We have tight budgets so we all have to appear to be attacking expenditure someplace.

I am not asking questions; I am making a speech. But after 18 years of playing the games—and we are politicians—when are we going to quit talking about games, charts, and whose chart is accurate and whose isn't and start trying to make some policy decisions? And the people that aren't helped by this are the poor people out there that don't have decent housing while we play bureaucratic games.

That is why I got so in the last year or so as mayor I quit taking Federal grants, because I got tired of the strings that went with it. I wanted to build houses and wanted to get people off the streets instead of on the grates. That is who really suffers as we all play these games back and forth over whose charts are correct and whose are not. It is the people out there who don't have adequate, decent housing.

I don't suppose it is going to change, Sam, one bit. You and I will come and go and others will come and go, and they will be sitting on this committee, and the debates haven't changed much in the 10 years I have been here. I think that is sad. I really think that is sad. We can't get away from the bureaucratic games and the charts and start looking at human beings out there and what their needs are.

And outlays versus authorizations, and so on, what I said to begin with, is really kind of frustrating. It is kind of like a sabbatical to be away from here every day for 3 months. I hoped something had changed. It really hadn't.

I apologize to my colleagues for taking my time to give a speech on my frustration for 18 years. But I wish there was some way we could come to grips with putting people in housing and proper financing and not playing authorizations versus outlays.

Interestingly enough, you are correct. It makes the deficit look bad this year because the outlays are there because you are not stretching them out. I sure wish I had the money to pay off my mortgage. Boy, would that save me a lot of money if I had the cash to pay it off right now instead of the couple hundred thousand bucks I will pay out on that mortgage over the 25-year life on that.

I would agree with Senator Leahy completely, there is no excuse and there is no reason, no rational reason, for Treasury not to come up with a decision, whatever it is. I don't know whether I can help with a call down there, but I will try.

Secretary PIERCE. We would welcome that. We have been trying a long time.

Senator GARN. I don't care whether they change Secretaries or not. To wait all of that time, it sounds to me like the usual thing. Despite the legal technicalities, somebody doesn't want to make a decision down there because they are tough decisions, so the best way is to just let them float along.

Again, the major point I wish to make is I wish we could make some policy decisions and not worry quite so much about when dollars are being spent and confusing the American public with authorizations versus outlays. But maybe Senator Leahy and I can make a joint request to Treasury and have them give us an answer, whatever it is. There has to be an answer one way or another. It won't get any easier to make the longer we have to wait.

Secretary PIERCE. I would say this: Regardless of the answer, we feel as though it is best to pay these off immediately.

Senator GARN. In the long run, you are absolutely right.

Secretary PIERCE. That is our policy, if you want to put it that way.

Senator GARN. But see, that is a serious political mistake, Sam.

Secretary PIERCE. Well, we believe that.

Senator GARN. Because then some future Congress and Administration will get credit for the lower outlays in the future years. [Laughter.]

Secretary PIERCE. I can only tell you what we think and believe. And no matter what the answer will be, I think we will come back to you and ask if we couldn't pay off.

Senator GARN. You don't understand the system, how it works around here. [Laughter.]

Senator Lautenberg?

MISSION OF HUD

Senator LAUTENBERG. Mr. Chairman, with appreciation for your experience and your views, having served first-line responsibility as a mayor of a community and hearing your statements about what we are trying to accomplish, I would have to confess to you I hear some conflicting statements in terms of what we want to do, what our mission is, in terms of the community, in terms of housing. Is the mission to lower outlays?

We can put more people on the street, and we can get the whole thing paid off. Just close it all off.

I think when we start using charts as an excuse and just criticizing the bureaucracy, I assume the bureaucracy has its deficiencies. I also believe, perhaps naively, that occasionally it functions, that occasionally government does function. We are here with a mission and the people who work in this Department have something that they want to accomplish and not simply get a day's pay.

Is that a fair assumption? I am looking at you. You are responsible for carrying out these tasks. Do you enjoy having a day's work done and saying, "Aha, we did something today"? I would think so. I have too much respect for you as individuals.

And I talk about the whole Federal employment base. I have seen a lot of deadheads. Believe me, I came from the corporate world and we had to find people hiding behind the corners in the corporate world. I found more people committed in government. It surprised me. People are more willing to give more often here than in the private world and get less for it, and more abuse at congressional hearings as well.

But I will tell you this, and here I disagree with you sharply, Mr. Secretary. I think that there are those occasions when numbers are put up on the board that you have an obligation to know what we are talking about.

Secretary PIERCE. I think that somebody——

Senator LAUTENBERG. Will you let me finish, please? I sat and listened to you on different occasions and I always think the roles are reversed. It is kind of deja vu. I have the chair and I am going to keep it for a moment.

The fact is when there are figures that are fundamental to the operation of your Department, I think somebody, either you or someone in your Department, ought to have an answer and not constantly be saying we are under study or under review or we will let you know.

This meeting I had with you and Senator Bradley and Congressmen and the Governor of our State was weeks and weeks ago. How long does it take to guide something through the process? It is ridiculous, very frankly, I think.

You will have your chance.

And you take advantage of the thing by suggesting it is game playing and there are deals being made or what have you. There are deals being made. I would like to know what the deals are. I would like to know what the difference was when, in fact, this harborside grant was requested for New Jersey. And it has been under review by Mr. Knapp of your Department, and decisions are imminent and more and more imminent and they extend out further. We have had no answer.

There isn't any reason not to give that grant. It has been under consideration long enough. It doesn't violate any of the rules.

IMPACT OF NEW JERSEY COURT DECISION

One of the things that I would like to remind you of, Mr. Secretary, in all due respect—and I know you work hard and I know you are conscientious. We both nodded in agreement that the court decision in New Jersey really didn't accomplish a whole lot. But it did accomplish something. You were defended on the basis of several factors there as being right. But, on the other hand, there was something that came out of that court suit and the judge's opinion: the question of burden of proof.

He has stated that the burden of persuasion to establish the intent to relocate jobs lies clearly, lies clearly, with the complaining community and not with the applicant, as your policy stated.

What do you intend to do about your policy in line with the judge's decision? It is not for Jersey City or the riverfront communities in New Jersey to have to prove that they intend to relocate jobs. It lies with New York City to prove that they intend to relocate jobs. What is going to happen?

Secretary PIERCE. The judge hasn't decided anything substantively. All he said is he knocked New Jersey out of the case and now the case has to go to trial. So he hasn't decided anything substantively. I don't know who is giving you advice.

Senator LAUTENBERG. He stated the burden of persuasion to establish the intent to relocate—he says this in his opinion——

Secretary PIERCE. Which judge?

Senator LAUTENBERG. Judge Lacy. I assume your people are reading these things.

Secretary PIERCE. We are reading them, but I am thinking there hasn't been a trial yet.

Senator LAUTENBERG. One thing we can't argue about is whether this is right or wrong. It is here. It is from the U.S. district court, District of New Jersey. The date of issue is April 22, 1985, *New Jersey* versus

Pierce; *Jersey City* versus *Pierce*. "Herein lies the pending order filed with the Clerk of Court." He says on page 21, "It is plain from the statute that the burden of persuasion to establish intent to facilitate must at all times remain on the complaining community under the presumption framework established by the Secretary." That is pretty clear, I think.

Secretary PIERCE. And if you take the assumptions and so forth that we have in the proposal that we gave you, it comes out along those lines.

Senator LAUTENBERG. It doesn't come out with the conclusion we are looking for in the case.

Secretary PIERCE. I am sure this is not the conclusion you are looking for.

Senator LAUTENBERG. No; it is a matter that is pending. After all, you are not making arbitrary decisions, are you?

Secretary PIERCE. No.

Senator LAUTENBERG. I know that. You are making specific decisions related to the law, in observance of your responsibility thereto; correct?

Secretary PIERCE. Yes.

Mr. MORAN. I do want to make one thing clear. The policy you are talking about from January 1985, the HUD policy, "calls for neighboring distressed cities to demonstrate to HUD the existence of any job loss patterns to the area of a proposed UDAG project when the jobs are the same category as those of the proposed project." Such a demonstration must be made by the complaining area—hence, our policy is not totally inconsistent with the judge's statements.

Senator LAUTENBERG. Mr. Moran, this is so notwithstanding some language in the statement of policy to the effect that the burden of overcoming such presumptions will be on the applicant. And the Secretary's determination as to whether such presumptions are applicable, whether the applicant has successfully rebutted them, shall be conclusive. I think that is pretty clear.

Mr. MORAN. Yes, sir, it is clear, except for one thing. You are saying the burden is on the applicant only after the presumption put on by the complaining community. You have to put that in the context, too, to be totally accurate.

Senator LAUTENBERG. We have to put that into the context. I am not going to take up a legal argument, not being a lawyer. But to me the thing very clearly states that the complaint has to come from the community affected.

Mr. MORAN. Correct.

Senator LAUTENBERG. Mr. Secretary, you have made a decision. You issued a statement in December 1984 and it said that based on this transfer, in terms of the grant for the harborside terminal, that the transfer involves 1,300 jobs, and based on existing statutory and regulatory language—this is a release from your people—that the transfer of 1,300 jobs would not significantly or adversely affect New York City's level of employment of 3.4 million or its economic base. This finding prompted the decision to allow the amendment of the grant agreement between the Department of Housing and Urban Development and Jersey City.

A few weeks later, what happened, please tell me, that suddenly changed this view into one that said aha, this now comes under the anti-pirating policy.

Secretary PIERCE. No. I tell you, what happened to make the change in the whole situation was the constant bickering between New Jersey and New York. No matter which way we went, there were arguments from both sides. Consequently, we decided to review the matter and make a decision as to how this should be done. That is what we are doing.

Senator LAUTENBERG. Clearly you weren't going to take sides in this thing.

Secretary PIERCE. No, we have not taken sides. As a matter of fact, New Jersey has gotten everything that it has wanted so far. You got the Newport City UDAG that New York originally objected to.

STATUS OF HARBORSIDE GRANT

Senator LAUTENBERG. What is the status of the harborside grant?

Secretary PIERCE. It is under review.

Senator LAUTENBERG. It has been under review.

Secretary PIERCE. Certainly it has been under review.

Senator LAUTENBERG. Can it get going, you come down with a decision yea or nay on the thing? That is your responsibility.

Secretary PIERCE. We will.

Senator LAUTENBERG. You have had enough time to review this thing. The one thing I have seen every time I have been at a hearing with you is that somehow or other we dodge the fact, we get around and we discuss bureaucratic delays and others peoples' responsibilities. The responsibility is yours, Mr. Secretary.

Secretary PIERCE. I know it, and I will take it, and I will give it to you.

Senator LAUTENBERG. Yes. When?

Secretary PIERCE. When I get ready.

Senator LAUTENBERG. No, that is not the subject. It is contemptible. Yes, you have a responsibility' I am elected by the people in my State to represent them.

Secretary PIERCE. We will do it as soon as possible, and always have. There are problems and New York has problems and you have problems, and we try to be fair to both sides. And we will do it just as soon as we possibly can. And that is what I will do.

Senator LAUTENBERG. You will expedite this thing, Mr. Secretary.

Secretary PIERCE. I will be fair to both sides and do it as fast as I possibly can.

Senator LAUTENBERG. You already made a decision. You made a decision in December. What persuaded you to suddenly change? The fact that New Jersey and New York are arguing? That is not your business.

Secretary PIERCE. No.

Senator LAUTENBERG. You have a responsibility of judging this on its merits.

Secretary PIERCE. A lot of things come up that you have to take into consideration. What you are saying is, "Forget it; we won't listen to anything you say." We listened to New Jersey and we will listen to New York. We have listened to you, too.

Senator LAUTENBERG. Mr. Secretary, listen.

Secretary PIERCE. I will listen to you again.

Senator LAUTENBERG. You heard us, but you didn't listen because nothing has come out of that meeting after we got everybody in the New Jersey delegation who was interested to come down and talk to you.

Secretary PIERCE. We listened.

Senator LAUTENBERG. The very nature of this delay shows what you think about the congressional entry process.

Mr. MORAN. Senator, I would like to make a point. I was at the meeting, too. I think it is important the wrong impression not be gained from your comments.

First of all, we told you we would make a decision with regard to that policy in terms of our position once we got the feedback from you and the New Jersey delegation and New York delegation, and would do so before the May funding round. That is exactly what we intend to do. The May funding round has a May 15 deadline. We will have a meeting with the delegation prior to that time. We will discuss at that point in time our decision in terms of promulgating a policy.

We did say before the May 15 round. That deadline has not passed yet.

Senator LAUTENBERG. I have a letter from the Housing and Economic Development Office of Jersey City. It says—and we can ask Mr. Knapp on February 22, 1985, at a meeting—"Approximately 1 week followed that meeting before Mr. Knapp forwarded a letter of documentation assuring the city could expect a final approval of the grant 2 weeks following receipt of the requested information." The grant was not approved in that period of time. That is what we see constantly.

Mr. MORAN. That is a different issue. We are talking in terms of responding to your comments, to the delegation. We agreed to a further meeting and further response prior to the May UDAG deadline.

Senator LAUTENBERG. How about to this specific thing, Mr. Moran?

Mr. MORAN. We are doing the best we can, Senator.

Senator LAUTENBERG. Does that mean that we are going to be discussing this—this is an Appropriations Committee. I know that the Secretary doesn't think that the Congress, the elected representatives of the people, have the right to ask these questions. And I, therefore——

Secretary PIERCE. That is not true at all. We have listened to those from New York and New Jersey. I have talked to I don't know how many Congressmen and Senators from both sides. I have listened and I have tried to be fair with each side. I have tried not to make an abrupt decision but listened and tried to hear what they had to say. I think I have listened very much.

Senator LAUTENBERG. It is time for action, Mr. Secretary. That is what it is time for.

Secretary PIERCE. We said we would take action, as he said just a little while ago, before the May round, and we will.

ACTION IN JERSEY CITY GRANT

Senator LAUTENBERG. What is the action plan on Jersey City?

Secretary PIERCE. What is the action planning to be? I said we would——

Senator LAUTENBERG. What is the action plan on the harborside project? When can we expect the funding for that?

Secretary PIERCE. You will have a decision as fast as we can give it to you, and we will certainly have a decision, I believe, before the May round.

Senator LAUTENBERG. On that, too, was that a May round contingent?

Mr. MORAN. That was not precisely the issue raised at that particular meeting, Senator. At the meeting you were talking about the UDAG policy, the January 11 policy, in terms of changing that.

As far as the Secretary's comments are concerned, that is, of course, accurate.

Senator LAUTENBERG. Mr. Chairman, I am going nowhere. Thanks very much.

Senator GARN. Mr. Secretary, I have some 22 pages of additional questions. [Laughter.]

Not on New Jersey versus New York, more on an overall policy which I have to deal with in accordance with New Jersey and New York who are part of that process. But my ultimate decisions have to be made on a countrywide basis on policy decisions.

Senator LAUTENBERG. I thought Salt Lake City was your point of reference, Mr. Chairman, in trying to make the case for the national policy. I felt it was appropriate for me to make the case on this particular issue with——

Senator GARN. Senator, I would suggest everybody cool off a little bit. I have been very patient, without interrupting any of my colleagues, including you. I made no objections to you bringing up your projects. I let you go on longer each time than the allotted 10 minutes, with no interruption, because no one else was here.

My references were trying to bring this committee back to an overall viewpoint and trying to make some policy decisions and some budget decisions this year. Within that, there are obviously individual decisions that HUD and the bureaucracy must make.

My point of reference to Salt Lake City—and I certainly don't question any of these people's desire to work. I agree with the Senator about the dedicated people in government. It does not change what I was trying to get to. Apparently the Senator did not understand the point I was trying to make, that we are not getting sufficient rid to individual human beings who are not as fortunate as you and I because of bureaucratic rules and regulations, not because of those people trying to enforce them.

IMPACT OF HUD REGULATIONS

HUD has been a morass for years, during my entire career. I used Salt Lake City as a reference of the frustration of a mayor wishing to get people off his city streets, and because of rules and regulations many times imposed by the stupidity of Congressmen and Senators who wrote laws that were difficult to interpret and then regulations to try and protect everybody's behind so that nobody ever got in trouble, we have created a mess.

That is what I was referring to, and trying to look more at policy. That is why as a mayor and my city council decided to ignore the Federal Government so we could get some of those unfortunate people off the streets who had no place to go when it was cold. That is the bottom line for me. That was what my statement was all about.

I have a great deal of frustration after 18 years in this business of not seeing much change. I have seen Secretaries of both parties come with the same frustration, of wishing to make decisions more rapidly and running into general counsels who say you can't do this, you can't do that, and Congress will come in and play Secretary bashing. It has nothing to do with either the Republican or Democratic Party. The only difference is when it is Republican, Democrats bash the Secretary more. When it is a Democratic Secretary, the Republicans bash them more. That is part of the game, and I understand it.

That is all my frame of reference was to Salt Lake City. It was not a reference to a particular project at a particular time, but relying on my background of working with this agency at the bottom of the funnel, when after 18 years having some of the same frustration.

But I am certainly not going to lump it all on this Secretary or Patricia Harris or others that have been there over the years and working with HUD and who had the same frustrations. Most of these people are dedicated servants who would like to make decisions much more rapidly, too. It is not easy for them to have the delays.

I don't know what the solution is, Senator. I really don't. I wish I had a recommendation of how we avoid this and how we can get decisions made more rapidly because indecision in the private sector, or for a mayor or county commissioner or a Governor, is much more difficult than no decision at all. To be told now you can't do it, then you will look at other alternatives. You will find other ways to go. There is no doubt about that whatsoever.

I don't know, at times I have had ideas, and Sam knows and other Secretaries of HUD have known and heard the same thing from me before I was ever in the Senate. You try, and you make very little progress. I don't know how we get to that. It is basically our responsibility here in Congress.

I have tried different legislative initiatives over the years, and I am sure every HUD Secretary and his assistant secretaries and deputy secretaries would like some relief from us. I don't know. I don't know how we can restructure. I wish I did. When I had less experience I thought I would know how to do some of it. When I first got here, I absolutely knew how to revise HUD. I was going to do it the first 2 years I was on the Banking Committee.

Senator LAUTENBERG. I know how to do it.

Senator GARN. Some days I decided the only way to do it was to do away with the whole agency and start over. At least it would take a few years until all the rules and regulations built up.

SUBMITTED QUESTIONS

Well, we are getting far too philosophical at this point. Mr. Secretary, there are other questions besides mine on a detailed basis of the budget submission that we will submit to you and ask for your answers in writing.

In addition, what Senator Lautenberg and Senator Leahy have asked for, I would appreciate if as soon as possible you could respond to their requests for the record.

Secretary PIERCE. We will. Thank you very much.

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR GARN

POOL FUNDS

Question: In the Continuing Resolution, Congress set aside $3.3 million in Section 236 contract authority to replace the funds drawn from various State agency reserves in 1982. The Conferees directed that the States involved and HUD seek mutually agreeable solutions to outstanding issues regarding the use of pool funds. What is the status of this matter?

Answer: In late 1974 and early 1975, HUD entered into agreements for additional Section 236 funding (de Wilde letters) with ten of the thirteen State agencies participating in the Section 236 noninsured program. The purpose of the de Wilde letters was to provide the necessary Section 236 interest reduction contract authority (IRP) for the States to close out those projects left in their pipeline following the January 5, 1973 moratorium.

Funding was available for lending rate increases and mortgage increases for those projects specified in the agreements. Any recaptures resulting from project reductions, cancellations, or conversions were placed in agency pools and were available to provide IRP amendments only for those projects specifically listed on a State's de Wilde agreement. There was no termination date for the various de Wilde agreements and use of the "pools" was eventually expanded to cover Rental Assistance Payment (RAP) unit and dollar increases. Use of the "pool" funds to cover RAP dollar increases in FY 1982 resulted in a dispute with the State agencies which ultimately led to the Congressional directive restoring the $3.3 million to the pools. There remains an outstanding issue on the availability and use of recaptures on projects which were listed in the de Wilde letters. We are actively working with the States to resolve this issue.

The $3.3 million provided in the Continuing Resolution has been distributed to the appropriate State agencies. Under the existing agreements, the use of these funds is limited to mortgage increases meeting HUD criteria for insured projects and for mortgage lending rate increases. So far, none of the funding has been utilized.

The Department would prefer to establish a date certain for close out of the de Wilde agreements. As noted, the agreements do not currently contain termination dates. The States, on the other hand, would like to expand the existing eligible funding categories under the de Wilde agreements to suit their current needs. We are hopeful that discussions with the State agency representatives will provide satisfactory solutions to the problems of all the concerned parties.

EXCESS INCOME REGULATIONS

Question: Last year, a great deal of concern was expressed over proposed regulations of the Department requiring recapture of excess rental and investment income. In last year's hearings, I expressed the hope that the PHAs and HUD could work together to agree on a method of both providing incentives for PHAs to generate greater income as well as assuring limits on excessive subsidies. What is the status of this issue?

Answer: After careful consideration of public comments, the Department has decided to delete from the final regulations the proposed year-end reconciliation of rental and other income. This will retain the present incentives to maximize income from tenant rents. The current incentive procedure for investment income, now in a Department handbook, will be included in the final regulation. In addition, the Department will issue a new regulation this summer containing a comprehensive policy on vacant units which will include an incentive to PHAs for maximizing occupancy and thereby rental income.

VACANCY REGULATIONS

Question: Another issue of some dispute between the Department and the PHAs has been proposed changes in the amount of operating subsidies paid for vacant units. I fully agree that excessive vacant units should not be fully subsidized. However, I am concerned that financially strapped authorities be provided operating assistance to improve their occupancy levels and not just be penalized with further financial constraints. What progress is being made in this area?

Answer: The Department has revised the vacancy rule taking into consideration public comments and consultations with Congressional staff and interest groups. One of the major concerns raised by the interested parties was that the proposed rule imposed immediate financial penalties on high vacancy PHAs, including financially troubled agencies. The Department believes that the revised rule will give all PHAs sufficient opportunity to address the vacancy problem without being penalized. Once an Administration policy is agreed upon, the Assistant Secretary for Public and Indian Housing will meet with Congressional representatives and the Public Housing interest groups to present the revised regulation.

CIAP SPENDING RATES

Question: At the time of last year's hearings, only $1.6 billion of the $7.6 billion provided for CIAP modernization since 1981 had been obligated. Since that time, we have appropriated an additional $1.7 billion. What is the status of the utilization of these funds? Please update for our records the utilization of the cumulative total of CIAP funds.

Answer: The status of modernization funding for FYs 1981-84 as of September 30, 1984 follows:

	Contract Authority	Budget Authority	Loan Authority a/
	(Dollars in Millions)		
Approvals................	$384	$7,678	$3,867
Obligated by PHAs/IHAs....	NA	NA	1,778
Expenditures by PHAs/IHAs.	NA	NA	1,131

a/ Represents capital cost.

An additional $847 million of loan authority funded from $86.3 million of contract authority and $1,725 million of budget authority will be approved in FY 1985.

CIAP STUDY

Question: To date, we have provided $4.5 million for an extensive study on modernization needs of public housing authorities. Please bring us up-to-date on the progress of that study.

Answer: The study of modernization needs of the public and Indian housing stock is well underway. All inspection instruments and questionnaires have been developed and cleared and are ready to use. The sample of the PHAs and projects to be visited has been drawn. The inspection techniques have been extensively pretested and adjusted as needed for occupancy.

Training of inspectors will begin on May 13, with the initial inspections planned for May 20. Inspections will be completed in September 1985, and the final reports of the project are due in September 1986.

Question: Are you confident that the study methodology and the arrangements with PHAs will yield results which correct the problems and criticisms which plagued HUD's previous efforts to quantify modernization needs?

Answer: We are confident that we learned a great deal about how to perform a survey of this type from our previous experience in evaluating the modernization needs of public housing. The current study is much improved over the methodology used in the 1980 study.

-- The inspection techniques are far more systematic and have been extensively pretested in 30 public housing projects to ensure their validity. Improvements in the inspection methods have been made wherever problems were identified.

-- The statistical sampling and reporting of errors is far improved in the current survey.

-- Arrangements with PHAs are greatly improved in the current study because of close coordination between the study and PHA professional organizations. Training and briefing sessions have been held for the PHAs in the sample.

- The reported results will be more useful than in the 1980 study because the reports will give extensive details of the individual systems and actions included in the modernization items. Also, computer data will be delivered by the contractor, giving even more detail of the modernization actions.

- The inspection techniques were extensively pretested in the summer of 1984, and the research advisory group for PHA technical experts and executives have agreed that the results were accurate.

- An evaluation of depreciation in the public housing stock, which is also part of this research, will yield methods of keeping the estimates updated for several years.

HOMELESS

Question: A continuing concern of the Congress has been Federal efforts to aid the homeless. Please outline what efforts HUD is undertaking to assist this segment of the population.

Answer: The Department has announced a series of new initiatives to help the homeless. These initiatives will complement steps already taken by the Department to make shelter available for homeless individuals. On November 29, 1984, the Secretary issued a memorandum which directed the Department to:

1. Expand the use of single-family acquired properties as emergency shelters by:
   a. permitting extension of the lease beyond the initial 1-year term, to encourage cities and shelter providers to spend the money necessary to rehabilitate the properties; and
   b. establishing a clearinghouse function at HUD Field Offices to make available to local governments and shelter providers information regarding single-family properties available for shelter use.
2. Encourage the preservation of single room occupancy (SRO) housing by:
   a. considering requests for waivers to the Section 8 Existing Housing regulations to permit SRO use in cities having a demand for this type of housing, that cannot be met with other programs; and
   b. reemphasizing the fact that SRO housing is now eligible under the Section 8 Moderate Rehabilitation program, the new Rental Rehabilitation program, and the Voucher demonstration.

3. Provide priority for admission to public and assisted housing to poor families and elderly individuals who lose their homes through no fault of their own.

4. Make battered spouses, who constitute part of the increase in the homeless population, eligible for priority admission to HUD-assisted housing.

5. Expand the use of public housing by:

   a. reiterating the policy of allowing the rental of public housing units to single nonelderly individuals when otherwise eligible applicants are not available; and

   b. issuing regulations to allow up to 30 percent of a PHA's units to be used to house single nonelderly individuals, where units are expected to be otherwise vacant for a year or more.

6. Encourage the use of CDBG funds for temporary shelter provision by:

   a. making a special effort to inform CDBG grantees about possible uses of CDBG funds to aid the homeless; and

   b. designating a Headquarters coordinator in Washington, DC to resolve any eligibility or other issues which might arise relating to the use of CDBG funds to assist the homeless.

VOUCHERS

Question: In FY 1985, Congress provided $744 million for 42,000 units covered by the Housing Voucher Program. This was in addition to the $261 million and 14,000 vouchers authorized in FY 1984. What is the status of this program?

Answer: The HUD-Independent Agencies Appropriation Act of 1985 (P.L. 98-371) enacted on July 18, 1984 provided authority for the Voucher program for both fiscal years 1984 and 1985.

In FY 1984, authority was reserved for 14,104 Vouchers of which 4,701 were the free-standing demonstration units. Because the program was authorized as a demonstration program instead of a full-scale initiative as requested by HUD, a number of additional administrative actions had to be taken which unavoidably delayed implementation. Further, 9,403 Vouchers were tied to the Rental Rehabilitation program. Under that program, grants must be allocated and rehabilitation work completed before the voucher can be utilized.

As of May 1, 1985, Annual Contributions Contracts (ACCs) have been signed with two of the twenty PHAs provided with free-standing vouchers in 1984 and these PHAs have started to issue vouchers. Training has been completed for sixteen of the twenty participating PHAs and the remaining four will complete training early in May. We anticipate that ACCs will be executed with all twenty PHAs by mid-June.

RENTAL HOUSING DEVELOPMENT GRANT PROGRAM

Question: What is the status of the HoDAG program? Aside from the issue of whether Congress agreed to a limited 2-year term for the program, why do you feel the program should not be continued?

Answer: In the 1986 Budget, the Department proposed to terminate the HoDAG program. HoDAG was approved by the Congress as a temporary program to alleviate "spot shortages" of rental housing.

Based on the first round of approvals, 50 percent of the HoDAG grants went to cities with vacancy rates above the National average of 5.5 percent, a level that indicates an adequate supply of housing. The program was not targetted specifically to those areas which may have been experiencing a shortgage of rental housing.

In addition, the program has proven to be an extremely costly method to provide low-income rental housing. For example, the $288 million obligated to date in FY 1985 has funded a total of 14,462 units including 3,769 units which are targetted for low-income tenants. Therefore, based upon the funding approved to date, the direct subsidy required to produce a low-income unit is averaging about $76,400. If it is assumed that this funding is disbursed over 3 years and discounted to present value at the current Treasury rate (11.3 percent), the average net present value of the direct subsidy for each low-income unit produced under the HoDAG program is $59,866.

The comparable subsidy for a low-income unit assisted under the Section 8 existing housing program using the same assumptions and a 3.0 percent annual increase in subsidy is approximately $28,350 on a net present value basis for 20 years of subsidy payments. In addition, approximately 75 percent of the HoDAG projects use tax-exempt bond financing. This results in an additional, indirect Federal subsidy which adds even more to the total Federal costs of these units.

Based upon its high subsidy cost (both direct and indirect subsidy) for each low-income rental unit produced, and the lack of effective targeting to areas with low rental vacancy rates, the HoDAG program does not provide an effective utilization of scarce subsidy dollars.

TEMPORARY MORTGAGE ASSISTANCE PAYMENTS (TMAP)

Question: What is the current status of the TMAP program?

Answer: Final regulations for the Temporary Mortgage Assistance Payments (TMAP) program were published on August 2, 1982. However, the District Court overseeing the mortgage assignment program reviewed the regulations under a motion filed by HUD before making them effective. In April 1983, the Court barred HUD from implementing the regulations because it felt the level of assistance was not equal to the level provided under the ongoing mortgage assignment program.

HUD appealed the District Court's ruling, but in July 1984 the Appeals Court upheld the District Court's position. HUD has modified the TMAP regulation in light of the District Court's ruling and is prepared to issue a new regulation. Because of the length of time since the last regulation was issued in 1982, we are considering issuing a proposed, rather than a revised final rule.

The 1986 Budget assumed that the TMAP program would be in operation by April 1985. However, because of the recent court rulings and the proposed issuance of new regulations, we expect a delay of several months or more.

SECTION 202 INTEREST RATE

Question: Congress has provided a limitation on the interest rate on Section 202 loans not to exceed 9.25 percent. What would be the effect of not continuing this limitation?

Answer: Assuming the limitation is not retained, Section 202 loans closed in fiscal year 1986 would be written at the Treasury interest rate plus an additional one-quarter percent to cover administrative costs. Under the Budget assumptions, the rate charged sponsors at loan closings during FY 1986 would be 10.75 percent. The higher interest rate on the loans closed will increase the debt service needed to amortize the loans and, in turn, the rent required to make the projects financially feasible. The additional cost attributable to the higher interest rate, which is estimated at $600 per unit per year, will be financed with a Section 8 amendment provided at loan closing. The amendment process will operate in a fashion similar to the Financial Adjustment Factor (FAF) used to provide assistance to bond financed Section 8 projects a few years ago. Projects will be underwritten assuming the 9.25 percent rate and if the projects are feasible at the lower rate and are within the Section 8 Fair Market Rent (FMR) limitations, an additional adjustment will be provided to bridge the difference between the 9.25 percent rate and the higher lending rate (10.25 percent).

The elimination of the 9.25 percent ceiling on lending rates will serve two purposes. First, by pricing the projects at the Treasury rate, the Section 8 costs for the projects will more accurately reflect the true rental subsidy costs provided for these projects. Secondly, the elimination of the interest rate cap will reduce the current pace at which the financial condition of the Section 202 Loan Fund is deteriorating. Under the current policy of lending funds to a sponsor at less than the cost of borrowing, the equity of the Fund has been seriously eroded. Unless this policy is halted, the Fund will eventually have insufficient resources to pay its expenses and manage its Treasury debt.

HOUSING COUNSELING

Question: The President's Budget seeks to eliminate the $3.5 million Housing Counseling Assistance program. In light of concerns over the default rate in assisted homeownership programs and the view that tenants of public housing programs can and should play a more effective role in the management and viability of their housing projects, why is this modest program proposed for termination?

Answer: The President's 1986 Budget does not include an appropriation request for the Housing Counseling Assistance program and recommends the program be discontinued. This has been the position of this Administration for the last several years.

During the Administration's first year in office, the President's 1982 Budget did request an appropriation for mortgage default counseling only. However, the Congress chose to make funds available for a comprehensive program, including prepurchase and tenant counseling. Subsequently, the Department reviewed a number of prior studies designed to determine whether counseling is an effective and cost efficient method of reducing the number of defaults and foreclosures of HUD-insured and/or subsidized single family mortgages. These studies proved inconclusive when analyzed collectively. Thus, the Administration no longer advocates funding for default counseling.

The Housing Counseling Assistance program is utilized, to a very limited extent, for counseling public housing tenants on matters of individual concern (i.e. preoccupancy, delinquency and displacement counseling). However, the appropriateness and effectiveness of using this program more extensively as a means of supporting public housing tenants in the overall management of their projects has not been studied.

It should be noted that the Department will continue to certify and/or recertify local public and private nonprofit agencies that provide HUD-approved housing counseling assistance voluntarily. In addition, counseling activities remain an eligible funding activity under the Community Development Block Grant program.

RESTRUCTURED SECTION 235 PROGRAM

Question: Last year Congress in the 1984 Supplemental Appropriations bill provided $150 million for the restructured Section 235 Program. While this was resisted by the Administration and I opposed this appropriation, following enactment the Department requested release of funds for the program. What is the status of the program?

Answer: The Restructured Section 235 Program was implemented at the beginning of FY 1985. Approximately 5,300 units were allocated to the Field Offices. As of the end of April, 1,227 firm commitments were issued. This represents an obligation of $3.3 million of contract authority and $32.7 million of budget authority. Some areas have used their entire allocation and others have not. Consequently, program changes were made to expedite the use of the remaining balance of $11.7 million of contract authority and $117.3 million of budget authority. These include allowing the reallocation of units within Regions, opening the program to all builders and allowing shifts of funds between allocation "categories."

CONGREGATE SERVICES PROGRAM

Question: You are proposing the termination of the Congregate Services program in FY 1986. This program has provided $28 million to demonstrate the ability of the handicapped and disabled to maintain semi-independent living standards. What would be required to maintain existing demonstration activities through FY 1986? We have recently received the evaluation of the reorganized administration of the program. When do you expect completion of the evaluation of the program's benefits?

Answer: Without additional funds, 25 contracts will expire in FY 1986. To fund these projects through the end of FY 1986 would require an additional $402.5 thousand. However, it is infeasible, programmatically, to change from the current well-balanced and staggered end-date system to one in which the majority of grants expire within a single month. In order to maintain the current funding system, contracts expiring in FY 1986 would be extended for a period of 1-year and would require an additional $2.6 million.

The final report which measures the effectiveness of the targetting of services to individuals is expected to be completed by July 1985.

MANUFACTURED HOME INSPECTION AND MONITORING PROGRAM

Question: Late last year, the Department proposed a change in the method of fee assessments for manufactured homes. Please describe this change and outline the reaction that this proposed change has generated in the industry.

Answer: The proposed Rule revises the manner in which HUD assesses fees for inspections of manufactured homes. Under the proposal, a fee would be charged for each transportable section rather than each manufactured home produced. (A single-wide manufactured home is comprised of one transportable section, whereas, a double-wide unit is comprised of two transportable sections.)

The industry reaction was mixed, with some in favor of the new Rule and some opposing it.

Under our 1986 Budget proposal, single-width units would be charged $16 instead of the current $19 and double width units $32 instead of $19. It is important to note that approximately 70-75 percent of the current manufactured homes produced are single-width and, therefore, would be assessed the lower amount of $16. Moreover, it is our determination that each section of a manufactured home is sufficiently complex to warrant a thorough inspection, and, accordingly, inspection cost should be allocated on a per section basis.

SOLAR ENERGY AND ENERGY CONSERVATION BANK

Question: What is the current status of actual utilization of the funds obligated under the Solar Energy and Energy Conservation Bank program? Also, please describe the current litigation on the recapture of these funds.

Answer: As of April 19, 1985, $21.0 million, or 32 percent of the $65.7 million obligated to States and other participants since the inception of the Program had been disbursed, while $29.7 million of the $65.7 million has been available to participants since September 30, 1983.

In addition to the $65.7 million already obligated, $15 million of 1985 appropriated funds will be obligated before the end of the fiscal year, as well as recaptured funds if the court order is implemented as expected.

Approximately $40 million, including reobligated recaptured funds should be available for disbursement by participants in 1986. Based on the current and projected disbursement rate of approximately $2 million per month, we believe the $40 million available to States for use in 1986 will be more than sufficient to meet their needs.

Judge Haight of the U.S. District Court of New York issued a ruling on March 20, 1985 which enjoined the Department from returning any recaptured 1982 and 1983 appropriated funds to the Treasury. Under the Solar Bank regulations, funds which the States were not able to use (disburse), were recaptured beginning March 1, 1985.

The Department is reviewing the court order concerning implementation and discussing it with OMB and Justice. The Department anticipates that the funds recaptured in 1985 will be reobligated during the fourth quarter of this fiscal year in conjunction with the annual allocation of other available funds (FY 1985 appropriation) and in accordance with the procedures mandated by the HUD Technical Amendments Act of 1984.

5% PAY REDUCTION

Question: The President's Budget proposes a 5 percent pay reduction for Federal employees. It now appears that the White House compromise with the Republican Senate leadership has settled on a "freeze." What financial impact will this have on your personnel costs estimated in fiscal year 1986?

Answer: In the event the 5 percent reduction for Federal employees does not take effect, an additional $18.2 million of Salaries and Expenses, HUD funds will be required. This assumes that the staffing levels remain as proposed in the Budget request.

INTERSTATE LAND SALES

Question: Because of widely reported cases of land sale scandals involving sales of swamp land or desert parcels, Congress enacted a program requiring registration of interstate land sales. This year you are proposing a significant increase in the fee structure of this program. What is the basis for this increase?

Answer: The basis for the proposed fee increase is to provide additional funds to help defray the full cost of direct program administration. This change, which is not expected to increase fees significantly under the various filing categories, is part of the Administration's overall effort to make Federal regulatory programs self supporting.

LEGISLATIVE PROPOSALS

Question: Please submit a list of the proposed legislation the Department is requesting which have an impact on the FY 86 budget.

Answer: Listed below are legislative proposals included in S. 667/H.R. 1870 (HUD Authorizing legislation) which will have an impact on the 1986 Budget.

Title I - Community Development

Section:

101--Authorization (Provides the funding authorization for the Community Development Block Grant (CDBG) Program.)

107--Repealers
- (a) Lump Sum Drawdown (CDBG)
- (c) Section 108 loan guarantees
- (d) Urban Development Action Grants
- (e) Rehabilitation Loans (Section 312)

108(a)--Urban Homesteading Program (Provides funding authorization.)

Title II - Assisted Housing

Section:

201--Sections 5(c) and 9 Authorizations (Provide funding authorizations for Annual Contributions for Assisted Housing, including Public Housing Modernization and Operating Subsidies.)

202--Preventing Fraud and Abuse (Several provisions included will allow HUD to ascertain the proper level of subsidization and tenant eligibility.)

211--Public Housing Financing Reforms (Permit the Department to shift from long-term amortization to direct funding of Public and Indian Housing Development and Modernization. Include forgiveness of PHA debt and Treasury borrowing debt.)

221--Section 202 Borrowing Authority (Provides for an increase in borrowing authority for Section 202 Loans for the Elderly or Handicapped.)

222--Section 8 FMR Freeze (Allows the Department to freeze 1986 FMRs at 1985 levels. Annual determination of FMRs to be resumed in 1987.)

223--Permanent Voucher Program (Changes the Voucher program from that of a demonstration program to a permanent one.)
Repeal of Moderate Rehabilitation Program. (No new commitments to be permitted under the Moderate Rehabilitation Program.)

Title III - Program Amendments and Extensions

Section:

301--Extenders (Extend various mortgage insurance programs, as authorized by Title II of the National Housing Act.)

311--Research and Technology (Provides funding authorization.)

312--Fair Housing Initiatives Program (Authorizes new program and provides authorization for Appropriations.)

Additional Item:

Section 236 Program--(While not included in S. 667/H.R. 1870, the Department does propose a 2-year extension of the authority to use excess rental changes under Section 236(f) of the National Housing Act for Troubled Projects Operating Subsidies.)

Title IV - Rental Rehabilitation and Development Grants

Rental Rehabilitation Grants--(Continues program but does not include a funding authorization, consistent with 2-year moratorium proposal.)

Development Grants (HoDAG)--(Proposes repeal of HoDAG program.)

HOMEOWNERSHIP DEMONSTRATION

The Homeownership Demonstration project recently initiated by the Office of Policy Development and Research represents an innovative approach to housing financing by low-income families. Public housing in America has become almost a dead-end, rather than a temporary stepping stone to greater financial independence and self-reliance. This demonstration is not without risk, however; and I am aware of very sincere and deeply seated concerns over the ramifications and drawbacks of such a program.

It is imperative, therefore, that this Committee be kept fully advised of the progress of the demonstration and that thorough monitoring and evaluation be conducted throughout the program.

Question: Please outline the program and your expected progress in the initiation of the demonstration.

Answer: The Public Housing Homeownership Demonstration is an effort to allow residents of public housing to achieve homeownership with the assistance of the Department of Housing and Urban Development and of local resources. It is not rigidly defined, but rather encourages locally determined and designed programs. Both multifamily and single family units are eligible for the demonstration. Units must be in sound physical condition or currently being rehabilitated. Purchasers must be current tenants of the units proposed for sale, or other low-rent public housing projects operated by the applicant public or Indian housing authority. Each demonstration project must involve the active participation of the housing authority, the tenants and the local government.

The first site selections will be announced in early May, at which time those sites may proceed immediately to complete their plans and implement their programs. Additional sites will enter the program as they demonstrate readiness to proceed. HUD has visited the sites to evaluate their readiness and to determine what technical assistance will be needed to help the localities with their programs.

Question: When can we expect a meaningful assessment of the viability and effects of the demonstration?

Answer: The Public Housing Homeownership Demonstration is a 3-year effort. During that time we will be monitoring the progress of all of the sites. The final assessment will come after three years of the program, but there will be interim reports on specific aspects of the program.

We have supported a demonstration of mutual housing under the sponsorship of the Neighborhood Reinvestment Corporation (NRC).

Question: What consideration have you given to utilizing this form of tenancy in, or in conjunction with, the homeownership demonstration?

Answer: Mutual housing is just one form of homeownership being considered for the demonstration. Paterson, New Jersey, has, in fact, proposed a mutual housing program. The forms of ownership to be used will be determined locally, based upon the housing units to be converted to homeownership, the kinds of financing available locally, and the desires of the purchasing tenants. We expect to explore various types of ownership, and are willing to approve any reasonable form proposed by the localities.

Question: Has NRC been consulted regarding technical assistance in this demonstration? Are any of the proposed demonstration sites in existing or proposed Neighborhood Housing Services (NHS) areas?

Answer: NRC is involved with at least one of the proposed homeownership sites--the single family homeownership proposal from Reading, Pennsylvania. Their assistance will be used as appropriate. An evaluation of the neighborhood is being made as part of the overall determination of the viability of the proposals. We are especially looking at efforts to undertake revitalization, and we are encouraging the localities to make use of local resources including NHS if appropriate. We do not currently know how many sites are in NHS neighborhoods, but have contacted NHS for that information.

COMPARATIVE HOUSING COSTS

As we attempt to allocate the constrained resources available for housing, the relative cost on a per unit basis of differing assistance mechanisms has been highlighted. For example, your statement discusses a $76,000 per unit cost for lower income housing provided under the HODAG program.

Per unit cost doesn't recognize the added benefits that housing development may bring to a community, nor does its account for the need for such approaches when housing shortgages exists, especially for certain underserved populations such as large families. But aside from these concerns, it can be a useful device to quantify an aspect of our housing program.

Please provide an analysis of the per unit cost of each of the HUD, and to the extent possible, FmHA housing programs. This analysis should be adjusted to make the data comparable on the basis of duration, unit size and present value of dollars.

Question: Please provide an analysis of the per unit cost of each of the HUD, and to the extent possible, FmHA Housing programs. This analysis should be adjusted to make data comparable on the basis of duration, unit size and present value of dollars.

Answer: The relative costs of the Housing Development Grant (HoDAG), Section 8 Vouchers, Section 202 Housing for the Elderly or Handicapped and FmHA programs are as follows:

Program	Subsidy Per Unit
HoDAG	$76,440
Section 8 Vouchers	28,350
Section 202	56,460
FmHA Section 515/521	39,020

The methods used in deriving these per unit costs are summarized below for each program:

HoDAG. The $76,440 subsidy estimate for a low-income family is based upon the $288 million obligated thus far and the number of low-income tenants assisted. Although a total of 14,462 families will reside in projects developed utilizing the $288 million, only 3,769 will actually fall into the low-income category. Dividing the $288 million of obligations by the 3,769 low-income families to be assisted resulted in a subsidy figure of $76,440 per family.

Vouchers. Assuming that a unit reserved and under payment in FY 1985 has a contract rent equal to the estimated 1985 FMR of $4,659 per unit and that the tenant contribution would approximate $1,760, an estimated annual subsidy of $2,900 would result. The present discounted value of this $2,900 is $28,350. The calculation assumes a discount rate of 11.3 percent (the Treasury bond rate) over a 20-year period and a 3 percent adjustment to the subsidy each year.

Section 202 Direct Loans for Elderly and Handicapped. Estimate assumes average loan of $47,000 at 9.25 percent interest for 40 years, combined with rental assistance payments. The subsidy is the present value of the difference between the annual payments on a loan at the Treasury borrowing rate and the loan at 9.25 percent, plus the present value of the rental assistance payment over 20 years (all discounted at 11.3 percent).

— Loan of $47,000 at 9.25 percent for 40 years requires an annual payment of $4,477.

-- Loan of $47,000 at 11.3 percent (representing the Treasury's borrowing rate) requires an annual payment of $5,390.

-- The difference between the two payments of $913 represents the annual net cost of the subsidized loan.

-- The present value of that net cost for 20 years is $7,090, discounted at 11.3 percent.

-- The present value of a series of annual rental assistance payments of $5,050 (increased by 3 percent payment adjustment each year) over 20 years, with a discount rate of 11.3 percent equals $49,370.

-- Combining this present value of rental assistance payments with the present value of the interest rate subsidy provides a total discounted subsidy of $56,460.

FmHA Section 515/521 Rural Rental Housing Loans and Rural Rental Assistance. Average loan of $38,000 at 1 percent interest for 50 years; combined with rural rental assistance payments. The subsidy is the present value of the difference between the annual payments on a loan at the Treasury borrowing rate and the loan at 1 percent, plus the present value of the rental assistance payment over 20 years (all discounted at 11.3 percent).

-- Loan of $38,000 at 1 percent for 50 years requires an annual payment of $969.

-- Loan of $38,000 at 11.3 percent (representing the Treasury's borrowing rate) requires an annual payment of $4,314.

-- The difference between the two payments of $3,345 represents the annual net cost of the subsidized loan.

-- The present value of that net cost for 20 years is $26,120, discounted at 11.3 percent.

-- Present value of a series of annual rental assistance payments of $1,320 (increased by 3 percent payment adjustment each year) over 20 years with a discount rate of 11.3 percent equals $12,900. *

-- Combining this present value of rental assistance payments with the present value of the interest rate subsidy provides a total subsidy of $39,020, in present value terms.

* The relatively low rental assistance payment reflects both lower housing costs in nonmetropolitan areas and the subsidy trade-off with the deep interest rate subsidy. Voucher payments would also be lower in areas served by FmHA.

Care should be taken in drawing comparisons between these programs. They are not designed to be interchangable. They address different housing needs in different areas under completely different circumstances. These per unit subsidy costs are based on present value analysis of the costs associated with each program over different periods of time. Because of program design differences no standardization of assumptions is possible.

SECTION 8 AND VOUCHER FEES

Question: Recently, HUD announced a reduction in the fees which PHAs would receive for administering the Section 8 Existing and the Housing Voucher programs. Our report accompanying the FY 1985 Appropriation Bill directed the Department to submit a report on this issue, to analyze the actual cost of program administration. This report was due in January. First, why was the report not submitted to the Committee?

Answer: The Senate Report on the FY 1985 Appropriation Bill directed the Department to prepare, within 6 months, a report which would determine the actual cost of program administration for both the Section 8 existing and the Housing Voucher programs. The Senate Report stressed that this report should be based upon "actual program costs incurred by a representative sampling of current program administrators who will be selected and made known to the Committee no later than October 1, 1984."

On December 24, 1984, the Department wrote to inform the Committee that the fee report requirement had been incorporated within the analysis which would be undertaken to evaluate the freestanding component of the housing voucher program. This letter provided a listing of the sites which had been selected to participate in the evaluation and also included a general description of the activities which would be reviewed. The letter also informed the Committee that it would not be possible to report on the administrative costs of the two programs within 6-months of enactment of the Appropriation Act (P.L. 98-371). Since the Housing Voucher program is a new effort, there is no body of data on the actual cost of program administration and proper evaluation cannot be undertaken until such actual cost data are available.

Question: Second, please provide the analysis of actual program administrative cost on which the recent fee revision was based.

Answer: As stated in the Budget, the 10 percent reduction to the administrative fees paid to PHAs is part of the overall, across-the-board, effort to reduce Federal administrative costs. As such, there is no analysis which is specifically related to the PHA fee reduction.

REVIEW OF PHA/IHA OPERATING COSTS

Question: The FY 1986 budget proposes an appropriation of $1.011 billion for Operating Subsidies for Public Housing Agencies (PHAs) and Indian Housing Authorities (IHAs). This is a reduction of more than $200 million from the estimated FY 1985 level. While savings can be expected from reforms in the program, including changes in expected tenant rents, there remain significant questions regarding estimates of operational costs. For example, the Administration's Budget assumes a "freeze" on personnel costs of PHAs and IHAs and a reduction in utility costs of 3%. In most cases these costs are outside the control of the PHAs/IHAs such as where city-wide labor contracts specify a COLA adjustment; and while petroleum costs may decline, other utility costs are either unchanged or increasing. To what extent has the Department conducted an in-depth review of PHA/IHA operating costs upon which to base these proposed reductions?

Answer: The Department has not conducted an in-depth review of PHA/IHA operating costs. The 3% utility cost decrease in FY 1986 is based on Administration projections of rate changes for utilities.

The proposed freeze reflected in the budget estimates assumes that PHA/IHA personnel should share in overall budget reductions consistent with those proposed for other areas of government operations, including personnel (e.g., the proposed reduction in salaries for Federal employees). The Department does not agree that personnel costs are beyond a PHA/IHA's control "in most cases." However, in some instances, for example, where a PHA/IHA is required to grant wage increases when they are tied to a city-wide contract, offsetting reductions would have to be made. This would require personnel cost reductions through cuts in staffing levels or reducing travel costs or other areas of PHA/IHA expenditures.

CAPITAL GRANTS

Question: For Public and Indian Housing development, the Department is proposing new legislative authority to cancel debts previously incurred and to provide direct capital grants beginning in fiscal year 1986. If this legislation is enacted, you estimate that up to $29 billion in prior year budget authority will be recaptured by the end of FY 1986. What is your estimate of outlay reductions associated with this debt cancellation?

There is a concern that capital grants will cause outlays from new authority to occur at a significantly higher rate than current debt financing. Federal outlays are spread out over the full 20-to 40-year contract term of current agreements. At what point in project development will capital grant authority result in outlays? Please provide for the record a table comparing the estimatedrate of outlays for current authority and for capital grants on a year-by-year basis.

Answer: The outlay reduction/increase estimates related to the proposed Public and Indian Housing Financing Initiative follow:

	Outlay Savings		
	Housing Payments	Loan Fund	Total
	(Dollars in Millions)		
FY 1985..............	$455.0	$350.5	$805.0
FY 1986..............	1,345.9	24.7	1,370.6
FY 1987..............	1,468.9	-50.1	1,418.8
FY 1988..............	1,589.5	-354.3	1,235.2
FY 1989..............	1,604.5	-562.8	1,041.7
FY 1990..............	1,601.0	-645.5	955.5

NOTE: Negative numbers (-) indicate increases in expenditures.

Under the proposed capital grant system, outlays will occur as Public Housing Agencies (PHAs) and Indian Housing Authorities (IHAs) require funds to construct and modernize projects. Under the current "amortizing" system annual contributions outlays will not start for modernization and construction until the projects are completed and debt service begins.

Following is an estimate of the projected outlay pattern for the requested FY 1986 Amendment and Modernization funding comparing the current amortization funding system and the capital grant system:

	Outlays			
	Amendments		Modernization	
	Current System	Capital Grants	Current System	Capital Grants
	(Dollars in Millions)			
FY 1986	...	$41.1	...	$87.5
FY 1987	$6.7	41.2	...	87.5
FY 1988	6.7	...	...	...
FY 1989	6.7	...	$17.8	...
FY 1990	6.7	...	17.8	...
FY 1991/2016-(Amendments)	174.2 a/	...	NA	NA
FY 1991/2008-(Modernization)	NA	NA	320.4 b/	...
Total	201.0	82.3	356.0	175.0

a/ Annual outlays of $6.7 million for 26 years.
b/ Annual outlays of $17.8 million for 18 years.

RURAL HOUSING

Question: The Senate Budget Committee and the recently announced Senate/White House deficit reduction plan call for the termination of the Farmers House Administration's rural housing program. Rural housing needs are assumed to be covered by an expansion of HUD housing coverage. Does expansion for rural housing assistance covered by HUD require a legislative alteration in the Department's allocation procedures?

Answer: Yes. Although HUD's programs can and already do operate in rural areas, the Department has a statutory requirement to allocate to nonmetropolitan areas 20-25 percent of our "Fair Share" allocations. The Administration's legislative proposal to Congress this year contains a proposed increase to this allocation to nonmetropolitan areas to compensate for the FmHA programs that would be phased out. Under the proposal, the share for nonmetropolitan areas would rise to 50 percent.

Question: Secondly, what steps would you recommend HUD would undertake to address rural housing needs if USDA's efforts were terminated?

Answer: As proposed in our 1986 Budget, HUD would increase the portion of rental housing assistance for rural areas. We would also continue to make HUD programs accessible for rural areas.

Question: What portion of your incremental units will serve rural areas?

Answer: Our legislative proposal to amend Section 213 of the Housing and Community Development Act of 1974 calls for a 50 percent share of housing assistance allocated under that section to go to nonmetropolitan areas.

FAIR HOUSING INITIATIVES PROGRAM

The Department is proposing a new "Fair Housing Initiatives" program.

Question: What is envisioned in this program that differs and improves upon that which is currently funded in the Fair Housing Assistance Program?

Answer: The Fair Housing Initiatives (FHIP) program would provide support for a much greater range of fair housing activities, both public and private, than the Department has heretofore funded.

Recent evidence indicates that housing discrimination remains a virulent but increasingly sophisticated feature of American housing markets. The elimination of discrimination requires strengthening and coordinating all fair housing enforcement and compliance agencies--public and private. The Fair Housing Initiatives Program (FHIP) is designed to provide the resources and flexibility needed to eliminate all forms of discrimination by funding a variety of public and private, grass-roots organizations.

There are three sub-components of FHIP for which $10 million is requested:

1. The Administrative Enforcement Initiative will provide $3 million in funding to substantially equivalent State and local fair housing enforcement agencies. This replaces competitive, "Type II" funding currently provided under the existing Fair Housing Assistance program (FHAP).

2. The Education and Outreach Initiative will provide $3 million in funding to public and private entities to conduct education or outreach programs to the general public and to housing industry groups. This is a continuation and expansion of education and outreach support currently provided on a limited basis through the Community Housing Resource Boards Program.

3. The Private Enforcement Initiative will provide $4 million in funding to nonprofit organizations or other private entities to conduct a variety of activities in support of fair housing enforcement through appropriate judicial or administrative proceedings, including investigations and testing.

The Department is aware that the National Association of Realtors (NAR) has expressed opposition, in testimony to the Congress, about the proposed program. The NAR concerns rest on three arguments:

1. NAR is opposed to what it sees as "HUD's effort through this Program to 'privatize' fair housing law enforcement." NAR characterizes the program, particularly the Private Enforcement Initiative, as "a gross and irresponsible delegation of enforcement responsibility to private groups and communities which have neither the competence nor the objectivity required to properly and fairly enforce the law."

2. NAR "is not opposed to testing but it is vigorously opposed to the unsupervised, unstandardized, subjective, and arbitrary testing program which HUD proposes this Congress finance."

3. NAR claims that there is a "fundamental dispute as to what 'fair housing' means" and that testing supported by the FHIP program will be utilized by different groups to coerce conduct in accordance with contradictory standards.

Following is HUD's assessment of these arguments:

1. The role of private fair housing groups and of "testers" in pursuing the enforcement of fair housing rights by private action under the Fair Housing Act has been recognized by the Supreme Court in the Gladstone Realtors and Havens decisions. (Both rulings were opposed in amicus briefs filed by NAR.) More fundamentally, it is simply not true that, as NAR argues, Congress has assigned fair housing investigation and enforcement responsibilities exclusively, or even primarily, to governmental agencies. A prime source of civil rights progress in this nation has been, not government initiative, but the active pursuit of Constitutional and statutory rights through the judicial process - by private plaintiffs. That expectation has been built into the Fair Housing Act itself by Congress by conscious design. The United States Supreme Court has said:

> "Since HUD has no enforcement powers and since the enormity of the task of assuring fair housing makes the role of the Attorney General in the matter minimal, the main generating force must be private suits in which . . . the complainants act not only on their own behalf, but also as private attorneys general in vindicating a policy that Congress considered to be of the highest priority." Trafficante v. Metropolitan Life Insurance Co., 409 U.S. 205, 211 (1972).

The Private Enforcement Initiative component of the FHIP proposal will assist "private attorneys general" in realizing the role assigned to them by Congress under the Act. It does not authorize private groups to institute private courts or other private tribunals; it will assist them only in the utilization of established judicial or administrative proceedings.

2. "Testing" is a means of gathering evidence of differential treatment of minority and non-minority homeseekers. "Testing" is only as good as courts and juries find it. Like any other evidence, it is the courts that must determine the probative value of the evidence presented to them. Therefore, it is the success or failure rate in the courts that will dictate the evolution of standards and adherence to them.

In granting funding for proposed testing projects under FHIP, HUD will utilize years of successful experience, based on court rulings in cases brought by public as well as private plaintiffs and on State and local agency administrative findings, in the design, monitoring, and assessment of testing activities by private agencies. (In recent years, the Civil Rights Division of the Justice Department has based several Fair Housing Act "pattern and practice" complaints on testing by private fair housing groups.) Under the Private Enforcement Initiative, funding will be awarded on a competitive basis, only for testing proposals clearly designed to produce evidence sufficiently probative to sustain a judicial verdict of discrimination.

3. If there is a "fundamental dispute" anywhere regarding "what fair housing means," it does not exist within the Federal Government. Any attempt to characterize HUD's affirmative marketing requirements with racial quotas is clearly off the mark. HUD has long made it clear that mere projections of anticipated occupancy cannot under any circumstances be used as a "quota" in the tenant selection process (see explicit instructions for Affirmative Fair Housing Marketing Plans). HUD's position to this exact effect with regard to Starrett City, for example, clearly appears in the record of the private lawsuit involving that project.

HUD's opposition to racial quotas in housing has been stated too many times to be counted. In proposing revised Fair Housing Act procedural regulations in 1984, for example, HUD stated that it "opposes activities that limit the free choice of any person, majority or minority, in selecting available housing." In stating support of programs of some communities to which the label "integration maintenance" has been applied, Secretary Pierce explicitly differentiated those programs from quotas. In fact, he characterized such programs as efforts opposed to racial steering.

Quite apart from the fact that this "fundamental dispute" alluded to by NAR does not exist, it would be far remote from testing even if it did. Testing only identifies differential treatment of minorities and non-minorities in the homeseeking process, on the assumption that differential treatment is what the Fair Housing Act forbids. Under the hypothetical "integration maintenance" standard that NAR suggests is held by some, it would be the failure to provide differential treatment that would constitute the violation. It is difficult to imagine how a testing program could be made to support such a purpose.

The third argument mounted against the FHIP proposal by NAR, therefore, is plainly specious.

To summarize, FHIP will promote effective coordination among Federal, State, and private organizations committed to the elimination of housing discrimination through professional, responsible, and effective activities. FHIP provides a proven, accepted enforcement tool to the agencies charged with administering fair housing law. It poses no threat or burden to citizens, including real estate professionals, committed to the goals of fair housing. HUD therefore, strongly urges approval of FHIP.

Question: Why is specific authorizing legislation necessary to initiate this program?

Answer: The present legislation only enables the Department to provide assistance to State and local agencies charged with the administration of fair housing laws which have been recognized by the Department as substantially equivalent to Title VIII of the Civil Rights Act of 1968. Under the proposed new program the Department would be able to fund public or private nonprofit organizations as well as institutions.

STAFFING

Question: Your administrative budget, especially in Community Development has been predicated on the termination of the UDAG program, as well as significant reductions in Housing programs. If the UDAG program is continued and housing programs are frozen and not subjected to a moratorium, what additional resources and positions do you feel will be necessary?

Answer: If the proposed program terminations, reductions and moratoriums are not approved, an additional 304 full-time equivalent work-years and $10.8 million will be required. The funding level assumes that the 5 percent pay reduction will be approved. However, if this is not the case, an $11.3 million increase will be required.

PUBLIC HOUSING NOTES

Question: Illustrative of the importance of tax policy on housing was the enactment of a little discussed provision in last year's tax act which halted the sale of public and Indian housing tax-exempt notes. As a result of this change, HUD will directly loan local housing authorities about $15 billion by the end of the fiscal year. Last year, Congress appropriated $300 million for the added interest costs of not using tax-exempt borrowing. Congress also directed that the Department, OMB and the Treasury Department make "concerted effort towards an early and definitive interpretation of the tax-code change to permit timely resumption of normal tax-exempt note sales." What is the status of this issue?

Answer: We have not yet been officially advised by Treasury of their ruling on the issue. In a recent meeting with the HUD's General Counsel, the IRS indicated that they may issue a ruling which could allow resumption of tax-exempt financing for a very limited universe of completed projects.

Question: The $300 million interest differential appropriation only covered borrowing prior to April 4, and for borrowing with maturities not in excess of seven months. What is the total amount of borrowing covered by the appropriation? Assuming that this borrowing is not repaid or forgiven, what will be the total utilization of the $300 million appropriated?

Answer: Some $8.5 billion of borrowings were subject to this appropriation. We are currently working with Treasury to finalize the figures on the amount of interest. Preliminary HUD data indicate usage of approximately $125 million.

Question: Congress appropriated the interest differential amount to prevent the Federal housing program from incurring costs which otherwise would have been borne through tax expenditures. For this reason, the appropriating language specified that loans to PHAs, as well as borrowing from the Treasury, be at interest rates comparable to the tax-exempt note previously obtained by PHAs. What rate of interest is HUD charging PHAs and what rate is HUD being chargedfor borrowing from Treasury under Section 4(b) of the U.S. Housing Act of 1937?

Answer: Treasury rates in the six borrowings this year were 9.7 percent, 8.7 percent, 9.5 percent, 9.1 percent, 9.8 percent, and 9.2 percent. HUD rates for the same borrowings were 6.7 percent for the first five notes, and 6.8 percent for the last one.

INELIGIBLE SECTION 8 TENANTS

Question: The Grace Commission highlighted the fact that HUD does not have an effective system to verify an applicant's income. The HUD Inspector General has reported that 12-17 percent of Section 8 tenants file false applications. With budget reductions proposed which will end the creation of additional new units, it is more important than ever to make sure that these scarce units are only made available for those who truly meet the eligibility requirements. The Grace Commission made several recommendations for changes in legislation to help remedy this problem. Has HUD taken steps to strengthen the screening of applicants to insure eligibility?

Answer: HUD has taken the following steps to strengthen the accuracy of tenant eligibility and rent calculations made by project owners and Public Housing Agencies:

- issued a revised Multifamily Occupancy Handbook in March of this year to include more detailed and clear instructions on procedures to verify eligibility and calculate tenants' income and rents;
- worked with industry groups to provide training on the new procedures for owners and managers of multifamily projects. Training started in January 1985 and will continue through the calendar year. Training will be held at numerous sites throughout the country and all management agents and project staff will have an opportunity to attend; and
- is preparing a technical assistance package for PHAs administering the Section 8 Existing Housing program, to provide more detailed and clear instructions for calculating tenants' income and rent.

The Grace Commission report referred to by the Senator discusses, among other things, computer matching with other agencies to identify tenants who may have misrepresented their incomes to HUD. The Department is currently redesigning the Multifamily Tenant Characteristics System (MTCS), which is an automated information system designed to collect the characteristics of tenants residing in Section 8 projects (and other multifamily projects). The MTCS is to be implemented in stages, with the capability to accomplish income computer matching expected to be achieved during 1986 for participants in a selected number of geographical areas.

QUESTIONS SUBMITTED BY SENATOR CHILES

ABOLITION OF FARMERS HOME ADMINISTRATION

Question: The President's Budget proposes the abolition of the Farmers Home Administration (FmHA) and transfer of its functions to HUD. Organizationally, these two agencies are structured to serve two distinct geographical groups of clients. It is estimated that 80-90 percent of HUD programs are in the urban or metropolitan areas. Yet in Florida, for example, 13 percent of the elderly population lives in rural areas. How can an agency based in urban areas provide meaningful assistance to rural area residents?

Answer: The Budget does not propose abolition of FmHA, only the administration of certain programs. The functions would be provided by HUD. Under the Administration's proposal, HUD would not assume full responsibility for providing rental assistance to rural areas until FY 1988. However, even now, HUD is active in nonmetropolitan areas. The Section 8 program exists in 1,761 of 2,443 nonmetropolitan counties. The Section 8 Existing program is operated by local PHAs and, in many States, by State agencies which serve all or a substantial part of their nonmetropolitan areas.

Question: If HUD is going to continue the FmHA 504 Rehabilitation Programs, why do we need the reorganization?

Answer: FmHA will continue to be responsible for its loan portfolio and rental assistance program. The budget proposal does not recommend that HUD take over responsibility for FmHA programs but that HUD would expand the availability and allocation of HUD rental housing assistance in nonmetropolitan areas to compensate for discontinued FmHA programs.

Question: If HUD will not have rural offices how will these areas be served?

Answer: The mechanisms for HUD assistance to nonmetropolitan areas are already in place. Section 202 direct loans for housing for the elderly or handicapped are made to sponsors in nonmetropolitan as well as urban areas; in FY 1984, approximately 20 percent of Section 202 loan authority went to nonmetropolitan areas. The Housing Voucher program will be administered at the local level by Public Housing Agencies, which cover both nonmetropolitan and urban areas across the Nation.

Question: Has any legislative remedy been proposed to meet this problem?

Answer: In FY 1985 and again in this year's legislative proposals, the Department proposed certain measures to help prevent fraud and abuse in HUD programs. The proposal submitted to Congress this year would authorize HUD to require applicants and participants to: (1) provide Social Security numbers or employer identification numbers as a condition of initial or continued eligibility for participation and (2) sign consent forms to permit release of information needed to verify income. The proposal would also amend the Social Security Act to provide HUD and PHAs access to data bases maintained by State unemployment agencies. This authority would permit HUD and the PHAs to make wider use of computer matching for verification.

The provisions contained in this proposal would help the Department assure that complete and accurate information has been submitted by beneficiaries of HUD programs.

POSSIBLE LEGISLATIVE CHANGES

Question: Housing officials in Florida have raised questions about recent changes in the law which are causing housing authorities to need more Federal subsidies. By permitting only families under 50 percent of medium income to be eligible, and not permitting a maximum rent to be set, many desirable role model families are moving out of public housing communities. To help create a more stable community, it is suggested that eligibility be returned to the former level of 80 percent of medium income. Has HUD done any studies on the effect of the change from 80 percent to 50 percent?

Answer: The prinicipal thrust of HUD's housing assistance policy in recent years, supported by the Executive and legislative branches, has been to target assistance to the most needy, whether defined exclusively in terms of income level or also in terms of other housing problems. The policy is evidenced by the adoption in 1981 of Section 16 of the United States Housing Act of 1937, and in Congressional adoption of preferences for admission to assisted housing in 1979 and further in 1983. HUD supports the change from 80 percent to 50 percent of median income, because research has shown that the vast majority of the neediest families fall at or below this level. In 1981, even before implementation of Section 16, almost 90 percent of subsidized households had incomes which were less than 50 percent of area median.

A study on the effect of the then proposed change was done by HUD prior to the passage of the 1981 Act. The study showed that, following the change, some Public Housing Agencies would lose some of their top rent payers and would lose money. Although rent payments would be increased from 25 percent to 30 percent of income, that increase would be applied to the remaining tenants whose incomes would be lower.

The Department recognizes the desirability of maintaining occupancy in public housing having a "broad range of incomes," as directed by Section 6 of the 1937 Act. This is evident in HUD's administration of Section 16, which recognizes "local commitment to attaining an occupancy having a broad range of incomes" as a basis for admitting families having incomes in excess of 50 percent of the area median into the project-based subsidy programs, including public housing. The Department has allowed exceptions to the 50 percent limit where the "economic mix" argument has been compelling.

It should be remembered that while there are statutory income limits on admissions, there are none for continued occupancy. Families whose incomes rise above 80 percent of area median income are not forced out automatically by that fact but only by rising rents. When their unit in public housing is no longer a "bargain" in comparison to what they can get on the private market, they move. But to reimpose rent ceilings would be unduly prejudicial to needier applicant families remaining on the waiting list and would grant a greater degree of subsidy to higher-income tenants than to lower-income tenants.

HUD strongly supports the targetting of housing subsidies to the most needy. Justification for this policy has been aptly demonstrated by the "worst cast" needs analysis of the Senate Appropriations Committee, indicating that approximately 2.8 million families below 50 percent of area median income who are living in substandard units and paying more than 30 percent of their income for rent, remain unserved by the housing subsidy programs. HUD, would, therefore, oppose any action which would alter this targetting thrust.

EMERGENCY ASSISTANCE FOR THE HOMELESS

Question: The HUD Budget contains no funding request for the homeless, although the Congress appropriated $70 million for this purpose in FY 1985. The FEMA Budget also contains no request for this purpose. Yet many local governments and charitable organizations have testified that the problems of the homeless are severe and a growing strain on local resources. Does this mean the Administration thinks that there is no longer a problem? What can be done to deal with this problem without any Federal funding?

Answer: We have consistently held that the problem of the homeless can best be handled at the local level. Localities can prioritize the use of Community Development Block Grants to address this problem. A top heavy, bureaucratic approach to solving this problem won't work.

The vast majority of efforts to assist the homeless are being undertaken by the private sector (primarily by non-profit groups, religious organizations, and other voluntary organizations) and local governments. Activities of these organizations include:

- operating emergency overnight shelters;
- providing vouchers to pay for overnight lodging in hotels, motels and apartments;
- operating transitional housing;
- running food banks and food pantries;
- giving money to private groups to operate shelters or provide other services; and
- leasing or rehabilitating buildings for private shelter providers.

QUESTIONS SUBMITTED BY SENATOR LEAHY

VOUCHERS

Question: For four years, the Administration has promoted housing vouchers as the appropriate way to provide housing assistance to low-income people. How many vouchers have actually been provided to low-income people since Congress authorized the Voucher demonstration program in November, 1983?

Answer: The 1985 Appropriations Act (P.L. 98-371), enacted on July 18, 1984, included $261,675,000 in budget authority which was earmarked to fund the first round of the voucher demonstration during fiscal year 1984. Because of the program's status as a demonstration effort, a number of additional administrative actions have been taken which unavoidably delayed implementation of the program. However, the full amount of budget authority was reserved late during FY 1984 representing assistance for 14,104 vouchers including 4,701 vouchers under the freestanding demonstration and 9,403 units for Rental Rehabilitation.

As of May 1, 1985, Annual Contributions Contracts (ACCs) have been signed with two of the twenty PHAs provided with freestanding vouchers in 1984 and these PHAs have started to issue vouchers. Training has been completed for sixteen of the twenty participants and the remaining four will complete training early in May. We anticipate that ACCs will be executed with all twenty PHAs by mid-June.

Question: After four years of promotion, why did the Administration not request funds for vouchers in FY 1986?

Answer: The 2-year moratorium on any incremental subsidized housing units, including Vouchers, reflects the Administration's effort to reduce the overall level of Federal spending which will, in turn, reduce the rate of growth in the Federal deficit. The decision was not based on a lack of faith in Vouchers as a vehicle for assisting low-income persons but on the hard reality of the need to reduce the deficit.

Question: If the abandonment of vouchers in FY 1986 is designed to save money and reduce the deficit, can you tell the Committee what outlay savings will be achieved through this program suspension?

Answer: We are assuming that the 2-year moratorium on incremental units will eliminate 100,000 units in both FY 1986 and 1987. The total each year includes an estimated 88,000 vouchers, 10,000 units of Section 8 new construction to be used in connection with the Section 202 program and 2,000 units of Indian Housing. Based upon this mix of units and a comparison with current services estimates; outlay savings will total $1.3 billion by 1990. The annual outlay savings are estimated as follows:

FISCAL YEAR	ANNUAL OUTLAY SAVINGS (Dollars in Millions)
1986	...
1987	$87.0
1988	268.0
1989	432.0
1990	516.0
Total	1,303.0

Question: Could you also tell the Committee how many families could be expected to receive this assistance in FY 1986 if the Congress provided you with the same funds received in 1985?

Answer: While there are numerous production mixes which could be utilized assuming the 1985 funding level, we estimate that all options would provide for necessary amendment and subsidy replacement needs and still support assistance for at least 100,000 incremental units.

Question: What will these people who would have received assistance at FY 1985 levels but wouldn't under your budget proposal do if we approve your request?

Answer: At present, the Department is providing subsidy assistance to approximately 4 million households. We estimate that despite the moratorium, another 207,000 families will be assigned in 1986 and 1987 as a result of the current pipeline of units. There is little doubt that the 2-year moratorium will delay our efforts to provide subsidy assistance to all needy households. However, we believe that efforts must be made to reduce the size of the Federal deficit and that achieving this end cannot be accomplished painlessly.

Question: How would you describe their situation and that of their families and children?

Answer: As a general rule, these families are paying an excessive share of their income for standard rental housing, or are living in substandard dwelling units.

RURAL PROGRAMS

Question: The Administration's FY 1986 Budget proposes to eliminate the housing programs of the Farmers Home Administration and give HUD the responsibility to administer rural and urban housing programs in FY 1988. Please tell the Committee how effective HUD's programs have been in the past in serving rural areas.

Answer: More than 355,000 housing units in nonmetropolitan areas have been added to HUD's inventory of assisted housing over the past six years (FY 1978-FY 1983). For this period, HUD allocations to nonmetropolitan areas under the Section 8, Public and Indian Housing, Section 202 Direct Loan and Section 235 Homeownership programs averaged slightly more than 23 percent of total allocations.

The new Housing Voucher program will be administered by over 2,000 local PHAs in rural as well as metropolitan areas, so that quality service already exists for nonmetropolitan areas. To make sure vouchers work in these areas, a small PHA/Rural Area demonstration in underway. Approximately 3,000 of the FY 1985 vouchers will go to this demonstration.

In the FHA program over the last 4 years we've looked for additional ways in which we can help those living in rural areas. Some things that we think will be beneficial include the Direct Endorsement program and the fees that are now paid to real estate brokers who help bring lenders and homeowners together.

The Direct Endorsement program could make FHA insurance more attractive to commercial banks. This will be particularly helpful in rural counties which have no S&Ls. Fifty-seven percent of FHA single family business now uses Direct Endorsement.

Question: Is the Housing Voucher program effective in rural areas? Please tell the Committee how many vouchers have been issued in rural areas to date?

Answer: The Department does not have any hard data yet on the effectiveness of vouchers in rural communities. However, we expect the Housing Voucher program to be effectively administered in non-metropolitan as well as metropolitan areas by the over 2,000 Public Housing Agencies which may participate in the program.

The State agencies in the free-standing Housing Voucher demonstration that may be administering Housing Vouchers in rural areas have not yet issued any to families. However, we do expect vouchers to be used in rural areas. In addition to those that may be issued in rural areas under the free-standing demonstration, we will soon be announcing a small PHA/Rural area demonstration. Approximately 3,000 of the FY 1985 Housing Vouchers will go to this demonstration. The vouchers will be awarded to a randomly selected sample of 41 PHAs; 21 of the 41 PHAs operate in rural jurisdictions.

Question: You have maintained that the principal problem facing HUD's low-income clients is the affordability of housing. Do you believe this is the main problem of low-income rural people as well? Do you believe here is a sufficient stock of housing in rural areas for vouchers to work? What has been the Department's experience with Section 8 Existing housing certificates in rural areas?

Answer: Yes, we believe that affordability is the main problem of low-income rural people. Although a greater portion of the rural housing stock is substandard as compared with the urban housing stock, great improvements have been made. Between 1975 and 1981, the number of "severely inadequate" housing units in non-metro areas declined by 119,000 (according to data from the Annual Housing Survey).

We feel that there is a sufficient stock of housing in rural areas for an effective Housing Voucher program. Both the EHAP (Experimental Housing Allowance Program) and the Section 8 Existing Program have been shown to work well in rural areas. For example, Bismarck, North Dakota was one of the EHAP sites. It included the town of Bismarck and the surrounding rural area as well. Bismarck had the usual characteristics which are often cited as reasons that voucher-type programs won't work in rural areas: a lower than average share of the market devoted to rental housing and a higher than average incidence of substandardness. Despite these constraints, Bismarck's success rate for voucher-holders finding units (86 percent) was higher than the National average for that component of EHAP (71 percent).

Moreover, a 1979 study of the Section 8 program in rural areas indicated that assistance programs that use the existing housing stock are better than project-based programs in serving sparsely populated rural areas. That is, they reach more areas previously unserved by HUD programs as evidenced by the fact that 46 percent of the Section 8 agencies in rural areas administered no other type of assisted housing program.

Question: The 1986 budget also proposes the closing of three Regional offices: Seattle, Denver, and Kansas City. These offices serve areas of the country which are primarily rural and would require new services from HUD under the 1986 proposal to eliminate other rural housing programs. Please explain to the Committee how the Department would carry out this new mission without having these Regional Offices?

Answer: The subject offices will not be closed. They will be converted from Regional Headquarters Offices to full Field Service Offices. This is consistent with a governmentwide initiative to reduce Federal costs in the Field by consolidating Regions. The Regional management and overhead functions currently being performed by those Offices will be subsumed by the remaining Regional Headquarters Offices. We do not anticipate that such a consolidation will cause any problems in providing new services to rural communities.

ELIGIBLE FAMILIES

Question: What is your Department's estimate of the need for low-income housing assistance in America today? In other words, how many households are eligible for assistance, but not receiving it?

Answer: Based upon 1981 survey data, there are a total of 12.0 million very low-income renters including 8.7 million very low-income families. As of 1981, approximately 6.2 million of those very low-income families were not receiving assistance. However, since it is neither feasible nor appropriate to attempt to address the entire eligible universe in a short time span (and no Administration has attempted such a task), we have been attempting to focus the highest priority on the "worst case" needs.

During the 1985 Budget process, the Department provided the Senate Subcommittee with an analysis designed to define "worst case" needs for rental housing assistance. The definition of "worst case" utilized in this analysis was based upon the 1979 and 1983 statutory priorities which were established by the Congress. These priorities are as follows:

1) families living in substandard units;

2) displaced families; and

3) families paying more than half their income for rent.

This analysis, which was accepted by the Congress, identified an unassisted worst case rental housing need of 2.8 million households as of 1984.

Question: Of that total, what is the Department's estimate of the total number of households that would, if given the opportunity, take advantage of the Department's housing assistance programs?

Answer: We would assume that, given the opportunity, the vast majority--but not 100 percent--of worst case renter households would accept housing assistance if available.

Question: One of your policy analysts was quoted in Builder magazine last month as estimating that if the Department continued to provide assistance at the FY 1985 levels, it would take 90 years to meet current needs for low-income housing. Do you agree with this estimate? If not, please explain to the Committee how you arrived at your own estimate.

Answer: The statement is not correct. However, based upon the 1981 Annual Housing Survey (AHS) data, there are approximately 8.7 million very low-income renter families nationwide. If you took that total and divided it by the approximately 100,000 incremental subsidy units we are providing in 1985 you would come up with approximately 90 years as cited by the analyst. This analysis does not acknowledge program turnover or the fact that many of these very low-income families already are receiving rental assistance. In any event, it is not feasible or practical to provide assistance to all eligible households and no Administration has ever assumed that such massive levels of assistance could be made available in the short-term. We have, instead, made efforts to target our rental assistance plans on a priority basis to the so-called "worst case" rental needs.

As noted in the response to a previous question, our 1985 analysis, which was prepared on behalf of the Senate Subcommittee, identified a total of 2.8 million families in this "worst case" renter category. The analysis takes into account the impact of household additions to the "worst case" category and the impact of turnover within the total inventory of subsidized units. Based upon this model, the needs of the worst case renter families could be addressed over a roughly 10-year period using the Administration's Budget assumptions.

HOUSING AGENCY SUPPORT

Question: The 1981 President's Commission on Housing endorsed vouchers but maintained that in order to be successful, they would have to be accompanied by extensive outreach and counseling for eligible tenants. Your budget proposes a 10 percent cut in the fees provided to public housing agencies running the voucher program.

This will hamper their ability to provide those services, will it not?

Answer: The reduction is not expected to have an adverse impact on the PHAs' financial conditions as most of the PHAs appear to have sufficient reserves to absorb the reduction without serious consequences to the operation of the program or to the level of services provided to tenants.

PUBLIC HOUSING FINANCING

Your budget proposes a $14 billion outlay in the current fiscal year to retire substantial amounts of tax-exempt loans used to finance Public Housing development. This is an expense which the Department does not need to make, but chooses to in order to eliminate any confusion about the tax-exempt status of Public Housing financing. Meanwhile, you are asking the Congress to suspend all new housing commitments for 2 years in order to save a little over $100 million in outlays in FY 87, with no outlay savings in FY 86.

Question: Why is the Department substantially increasing our deficit problem this year, at the same time that it abandons its mission to provide continuing assistance to unserved families?

Answer: The Department did not choose to outlay $14 billion for note redemptions. The Tax Reform Act of 1984 made the tax-exempt status of short-term Public and Indian Housing notes questionable. This prevented the Department from refinancing ("rolling-over") those notes in the private market. Since those notes could not be "rolled-over" they were redeemed using direct Federal financing by borrowing from the Treasury. HUD representatives met with IRS and Treasury staff before and after the redemptions began in an effort to resolve the problem. It was after the note redemptions began that the Administration decided to make the direct financing proposal a part of the 1986 Budget submitted to Congress.

The 1986 Budget proposed a partial 1-year moratorium of modernization activity and a 2-year moratorium of Indian Housing development activity as part of the Administration's deficit reduction effort. The Department does not consider this an abandonment of its mission since there is a substantial number of units in the pipeline to be completed as well as unexpended modernization funding available to be used.

TWO HUNDRED THOUSAND HOUSEHOLDS

Question: Mr. Pierce, you have on several occasions stressed that some 200,000 households will receive assistance during your "moratorium." Were these commitments approved in prior years?

Answer: Yes.

Question: What is your estimate of how long it would take the Department to start actually providing additional assistance again if the Congress approved your 2-year moratorium? Please explain how long a lag time this would involve, in light of the Department's failure to put a single voucher on the street in over 15 months.

Answer: When reservation activity is resumed in FY 1988, housing assistance will be provided to recipients by FY 1989. This pattern assumes that funds reserved in FY 1988 will result in the execution of Annual Contributions Contracts (ACCs) by the first half of FY 1989 and that tenants will receive assistance shortly thereafter. This pattern is based upon the experience we have observed under the Section 8 existing (certificate) program.

As far as the Voucher Demonstration is concerned, the Congress did not provide funding for this new program until July 1984 and required that the initial funding be provided as a demonstration program. As a result of this requirement, additional administrative steps had to be taken and these have resulted in delays. Even with these delays, ACCs have been executed with the first two demonstration sites (in April) and the remaining 1984 funding sites are expected to execute ACCs by the middle of June. The approximately 1-year span between fund availability and ACC execution is roughly comparable to the Section 8 Existing (certificate) program pattern.

COMPREHENSIVE IMPROVEMENT ASSISTANCE PROGRAM (CIAP)

The Nation's 1.3 million unit Public Housing stock is valued at $75 billion. Like all residential real estate, it is subject to regular wear and tear; unlike other rental real estate, the rents and the financing are not set to provide repair funds; only the Comprehensive Improvement Assistance Program (CIAP) does.

Question: Won't your proposal to eliminate CIAP mod funding for FY 86 result in costly deferrals or repairs and reoccupancy of vacant units?

Answer: No, the Department does not think that a 1-year partial moratorium of the CIAP will result in costly deferrals of repairs and reoccupancy of vacant units. Approximately $2.9 billion of modernization funds remained to be spent as of September 30, 1984 and an additional $847 million of capital improvement funds are being made available in FY 1985. Also, a total of $175 million of capital would be provided in FY 1986 to meet emergency modernization needs. The FY 1986 Budget proposes that modernization reservations will resume at a capital cost level of $760.9 million in FY 1987.

Question: How long from the time Congress appropriates until actual mod work is in place?

Answer: It usually takes from 3 to 4 years for the modernization work to be completed. During the year the funds are made available, applications are submitted, funding decisions are made, and funds are reserved. Following this process, final planning is completed, funds are obligated, the work is performed, and funds are spent.

Question: Doesn't that involve a pipeline process, so that if no dollars are added in FY 1986, no dollars will be available in a subsequent fiscal year?

Answer: With a total of approximately $2.9 billion of unspent modernization capital improvement funds as of September 30, 1984, the Department anticipates that the partial 1-year moratorium in FY 1986 will permit this back-log of unspent modernization funds to be reduced. The anticipated resumption of modernization funding at a capital cost level of $760.9 million in FY 1987 will ensure a continuing high level of modernization activity.

Question: What has HUD done with the CIAP appropriations for FY 1985?

Answer: Of the total of $1,725 million of budget authority ($847 million of capital cost) available in FY 1985, $1,697 million has been assigned to the Field Offices for reservation to specific Public Housing Agencies (PHAs)/Indian Housing Authorities (IHAs). The remaining $28 million of budget authority is available for exchange for recaptured development funding. The FY 1985 Appropriation Act provided $100 million of budget authority for CIAP use in exchange for development funding with any amount unreserved by June 30, 1985 to become available for the Section 8 Existing Housing program. Of the total of $100 million of budget authority appropriated for exchanges, $72 million had been assigned to the Field Offices as of April 30, 1985.

Question: Has HUD actually disbursed these dollars to any Public Housing Authority or put them into an Annual Contributions Contract with a Public Housing Authority?

Answer: Given the time needed to evaluate eligible projects, most of the reservation activity for modernization takes place during the latter part of the fiscal year. Therefore, little if any FY 1985 funding had been obligated (put into an Annual Contributions Contract) or disbursed by the Department as of April 30, 1985.

Question: Why so late?

Answer: The processing schedule for FY 1985 started with the submission of preliminary applications no later than March 1, 1985. Subsequent to that date, applications need to be reviewed, funding decisions need to be made, and final applications need to be submitted by PHAs/IHAs with funding to be reserved no later than September 27, 1985.

PUBLIC HOUSING FEES

Question: Last year, the Administration proposed to cut the fees paid public housing authorities for administering the existing Section 8 program, and our Report to the FY 1985 Appropriations Act directed you not to do so until you submitted to us within six months of the Act, an analysis of the cost structure of the fees. Have you cut these fees?

Answer: The fees have not been cut yet. However, a Notice has been sent to the Field which will effect a reduction starting July 1, 1985. This action was part of the Administration's 1986 Budget which announced an across-the-board 10 percent reduction in Federal administrative costs. This reduction included the fees which are paid to public housing authorities (PHAs) administering the Section 8 and Housing Voucher programs.

Question: Why did you disregard our direction?

Answer: The Administration's 1985 Budget included a proposed restructuring of PHA fees which was intended to better match the compensation provided to PHAs with the work involved in administering the programs. This restructuring was based upon a GAO Audit which indicated that large PHAs appeared to be building up large reserves of fee income in relation to their actual operating costs. As a result, last year's Budget proposed a reduction to ongoing fees but an increase to preliminary fees. Rather than a single preliminary fee for each unit, the fee would be paid each time the unit turned over and a new certificate or voucher is issued. The 1985 proposal was intended to be revenue neutral overall but was expected to provide improved compensation to PHAs for actual work performed. When the Department became aware of errors in the data and assumptions upon which the proposal was based we voluntarily withdrew the proposal.

We do not believe that our actions, reducing the fees by ten percent as part of an over all administrative cost reduction effort, violate the directions included in the Senate Report. The 1985 Report directs the Department to study the cost of administering the programs and we have undertaken that study. Over the next 2 years, administrative fees in the Section 8 Existing and Housing Voucher programs will be examined in both the freestanding and small rural Housing Voucher demonstrations. In addition, we are collecting data currently to analyze the amounts claimed under the fee system, expenses, and operating reserves, for all PHAs that administer the Section 8 Existing Housing program. The 10 percent reduction announced in the 1986 Budget is a part of an overall Administration effort at belt-tightening.

Question: Did you discuss with the Chairman or the staff this fee cut prior to submitting a report to us?

Answer: No. The Congress was notified of the proposal through the Department's 1986 Budget submissions.

Question: Do our Report instructions mean nothing?

Answer: We do not believe that we have violated the Report instructions. The Report directs the Department to study the PHA fee issue and that study is underway. The Report does not direct the Department to hold PHA fees harmless while this study is underway.

Question: What analysis did you do before cutting the fee?

Answer: The PHA fee reduction was part of an overall 10 percent reduction in Federal administrative costs and no special analysis was performed to support this particular aspect of the Federal-wide effort.

Question: Does the fee cut reflect the differences in performing, e.g., the success rate in finding units?

Answer: No special analysis was performed. The 10 percent fee cut is independent of the ongoing effort to study the costs and the efficiency of the existing fee structure. The reduction was made on an across-the board basis.

Question: Does it reflect the area covered, e.g. rural v. urban?

Answer: No it does not.

Question: Does it reflect differences in availability of units?

Answer: No it does not.

Question: Are more cuts in such fees to come?

Answer: The 1986 Budget does not include any additional fee cuts in future years. However, the impact of inflation was factored into fee costs assumed for 1987 and beyond. When the Fee Report is completed in FY 1987 a restructuring of the current fee system may occur if warranted by the Report findings. This could result in increases or decreases to the current structure.

Question: Will you restore the fee until the Report is submitted?

Answer: The 10 percent fee reduction has no direct relationship to the PHA Fee Report and we have no plans to rescind the reduction.

ASSISTED HOUSING CONTRACTS

Question: The minority staff of the Senate Banking Committee has prepared the attached chart based on the CBO estimate, also attached, of expiring assistance contracts.

Please indicate whether, if 100,000 new units of housing are added each year, as indicated in the second column, you agree that the level of appropriation would have to increase as indicated in the last column?

If you disagree with these figures, please supply the correct figures.

Answer: We have reviewed the chart prepared by the Staff of the Senate Banking Committee and have found apparent inconsistencies with actual numbers and estimates. For example, actual data appear to include units only from the Section 8 Existing and Voucher programs but the 100,000 units added each year, between fiscal years 1986 and 2003, include approximately 12,000 units of Section 8 and Public Housing new construction and substantial rehabilitation.

Rather than try to fully evaluate the validity of the data on the chart, we have attached tables which indicate the Department's most current estimate of unit contract expirations under the Section 8 Existing and Voucher programs and the estimated budget authority which would be required to renew the contracts should that decision be made.

It is important to note that the problem of expirations was not caused by the Voucher program. Built into all subsidy programs, beginning with the first subsidy project approved in 1966, was the question of what would happen when the subsidy contracts expire. The apparent issue for the Congress is whether or not it wishes to face the problem less often, in large funding increments, or more often, in small funding increments. The general assumption of all Administrations, both Democratic and Republican, has been that an evaluation of housing conditions, rents, incomes, and need would have to be made to determine whether or not contract extensions, new contracts, or some other solution would be necessary.

However, as the figures we have prepared clearly indicate, the magnitude of the refunding problem is greater with programs other than vouchers. Specifically, the Section 8 units would cost $74 billion to refund between 1990 and 2000, and the vouchers would cost $29 billion during the same time period.

Beginning in FY 1990, an estimated $537.1 million of budget authority would be necessary to renew contracts for 23,493 units. By FY 2000, this estimate grows to $17.6 billion of budget authority for 533,750 units. A total of $104 billion would be necessary to fund contract renewals for over 3.4 million units--from FY 1990 through FY 2000--utilizing vouchers. Through this refunding effort and additional unit completions, an estimated 5.4 million assisted housing units could be under payment by the end of FY 2000. With regard to 5-year or 15-year vouchers, the point should be made that regardless of the term, annual outlays would be the same.

Table 1 - presents the number of assisted housing units eligible for payment between 1985 and 2000.

Table 2 - presents the number of Section 8 Existing and Voucher subsidy contracts expected to expire by 2000.

Table 3 - presents the cost of "refunding" the 3.4 million Section 8 and Voucher contracts estimated to expire over the 1990-2000 period.

TABLE 1

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Units Eligible for Payment

1986 - 2000

Fiscal Year	Section 8	Public Housing	Section 235	Rent Supplement	Section 236	Total
1985...	2,058,000	1,352,000	203,000	27,000	338,000	3,978,000
1986...	2,232,000	1,374,000	194,000	27,000	337,000	4,164,000
1987...	2,262,000	1,377,000	183,000	27,000	336,000	4,185,000
1988...	2,283,000	1,380,000	173,000	27,000	335,000	4,198,000
1989...	2,390,000	1,379,000	163,000	27,000	334,000	4,293,000
1990...	2,491,000	1,376,000	154,000	27,000	333,000	4,381,000
1991...	2,597,000	1,373,000	146,000	27,000	332,000	4,475,000
1992...	2,709,000	1,370,000	138,000	27,000	331,000	4,575,000
1993...	2,820,000	1,367,000	127,000	27,000	330,000	4,671,000
1994...	2,932,000	1,364,000	117,000	27,000	329,000	4,769,000
1995...	3,043,000	1,361,000	105,000	27,000	328,000	4,864,000
1996...	3,154,000	1,358,000	94,000	27,000	327,000	4,960,000
1997...	3,266,000	1,355,000	87,000	27,000	326,000	5,061,000
1998...	3,377,000	1,352,000	78,000	27,000	325,000	5,159,000
1999...	3,489,000	1,349,000	74,000	27,000	324,000	5,263,000
2000...	3,600,000	1,346,000	70,000	27,000	323,000	5,366,000

TABLE 2

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Section 8 Existing Units and Five-Year Vouchers

Contract Expirations

Fiscal Year	Contract Expirations				
	New and Sub Rehab	Moderate Rehab	Existing	Vouchers	Total Expirations
1990 estimate.	...	...	5,993	17,500	23,493
1991 estimate.	...	...	256,140	41,000	297,140
1992 estimate.	...	...	172,744	3,500	176,244
1993 estimate.	...	...	155,095	3,500	158,595
1994 estimate.	...	190	115,434	91,500	207,124
1995 estimate.	178	1,086	86,994	109,000	197,258
1996 estimate.	5,523	1,775	323,608	132,500	463,406
1997 estimate.	24,623	8,425	281,021	95,000	409,069
1998 estimate.	58,636	18,221	267,009	95,000	438,866
1999 estimate.	102,953	14,882	210,955	183,000	511,790
2000 estimate.	139,670	23,086	170,494	200,500	533,750
Total.......	331,583	67,665	2,045,487	972,000	3,416,735

TABLE 3

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Section 8 Existing Units and Five-Year Vouchers

Cost of Refunding Expired Contracts

	New and Sub Rehab		Moderate Rehab		Existing		Vouchers		Totals	
	Units	Budget Authority	Units	Budget Authority	Units	Budget Authority	Units	Budget Authority	Total Units	Total Refunding
					(Dollars in Millions)					
1990 estimate.	...	...	...	...	5,993	$124.1	17,500	$413.1	23,493	$537.1
1991 estimate.	...	...	...	...	256,140	6,507.3	41,000	1,013.9	297,140	7,521.2
1992 estimate.	...	...	...	...	172,744	4,790.4	3,500	80.2	176,244	4,870.6
1993 estimate.	...	...	...	...	155,095	4,558.0	3,500	82.9	158,595	4,640.9
1994 estimate.	...	...	190	$4.8	115,434	3,492.6	91,500	2,514.8	207,124	6,012.2
1995 estimate.	178	$4.6	1,086	28.1	86,994	2,755.2	109,000	3,088.6	197,258	5,876.4
1996 estimate.	5,523	147.9	1,775	47.5	323,608	9,927.6	132,500	3,887.1	463,406	14,010.1
1997 estimate.	24,623	681.8	8,425	233.3	281,021	8,777.5	95,000	2,874.9	409,069	12,567.5
1998 estimate.	58,636	1,679.0	18,221	521.8	267,009	8,533.0	95,000	2,972.7	438,866	13,706.5
1999 estimate.	102,953	3,047.9	14,882	440.6	210,955	7,119.2	183,000	5,944.9	511,790	16,552.6
2000 estimate.	139,670	4,276.0	23,086	706.8	170,494	5,899.2	200,500	6,724.1	533,750	17,606.0
Total.......	331,583	9,837.3	67,665	1,982.8	2,045,487	62,484.1	972,000	29,597.0	3,416,735	103,901.2

Totals may not add due to rounding.

ADDITIONAL PUBLIC AND INDIAN HOUSING FUNDING

Question: As a result of the agreement between the President and the majority, it appears that the President will now support the addition of Public Housing units. Is that correct?

Answer: As part of a compromise reached between Representatives of Congress and the Administration, it was agreed that 100,000 incremental units would be funded in 1986. Although the agreement did not specify a particular unit mix, discussions were based on the FY 1985 program level which did include provision for 7,000 Public and Indian housing units. However, this agreement was contingent upon several factors including acceptance of a complete package.

Question: Will the President now submit a request for those funds?

Answer. No. If the agreement continues intact, it will be up to the Congress to provide the necessary funding through the appropriation process.

Question: What level of budget authority will the President request?

Answer: As noted above, the Department does not plan to request additional funding for assisted housing over and above that which has been proposed as part of the 1986 Budget. However, if approval of the Administration's revised financing proposal were to be adopted, approximately $431 million of budget authority would be required for one-time capital funding of 7,000 Public and Indian housing units in 1986. Under the current long-term debt amortization procedure, about $43 million of contract authority and $1.26 billion of budget authority would be needed in support of 7,000 units.

Question: What type of units will they be?

Answer: The 1985 program level provided for a total of 7,000 additional units which included 5,000 Public Housing units and 2,000 Indian Housing units.

INCREMENTAL UNITS

Question: Your testimony refers to assisting 207,000 new families in 1986 which comes from the pipeline of existing housing units. The Senate in the Appropriations Committee has used the term incremental units for a number of years in a very specific manner to include new and substantial rehabilitation, vouchers, moderate rehabilitation, some Section 8 existing and public housing. Please supply the figure corresponding to 207,000 using the Committee's definition of incremental units.

Answer: The 207,000 unit estimate refers to the net number of completions in fiscal years 1986 and 1987 for the Section 8, Public and Indian Housing, Section 23, Section 235, Section 236 Rental

Assistance, and Rent Supplement programs. All of these units are "incremental" in the sense that they will increase the total inventory of units eligible for payment. Under the Appropriations Committee definition of incremental, Section 8 Loan Management and Property Disposition activities would not be recognized when, in fact, they are included in the 207,000 unit estimate. Using the Committee's definition, an estimated 185,400 units are incremental and consist of Public Housing, Section 8 new construction, substantial rehabilitation, moderate rehabilitation and Existing Housing (Finders Keepers). The data, by program type, are summarized in the table below:

	1985-1986	1986-1987
Section 8		
New and Sub Rehab.........	33,400	12,000
Vouchers..................	37,500	...
Moderate Rehab............	15,000	...
Section 8 Existing........	64,500	...
Subtotal...............	150,400	12,000
Public Housing.............	20,000	3,000
Total....................	170,400 a/	15,000

a/ Excludes 2,000 Section 235 units which represent new construction but which were not included in the Committee's definition of "incremental."

QUESTIONS SUBMITTED BY SENATOR LAUTENBERG

URBAN DEVELOPMENT ACTION GRANT (UDAG) PROGRAM

Section 119(h) of the UDAG statute requires that no grant may be made which facilitates a relocation of a firm from one distressed city to another unless "the Secretary finds that the relocation does not significantly and adversely affect the unemployment rate or economic base of the area from which the industrial or commercial plant or facility is to be relocated".

On December 27, 1984, you found that the Harborside grant would not adversely affect NYC because the movement of 1,300 jobs would not be considered significant in a city with 3.4 million people employed.

Question: If the movement of 1,300 jobs in this instance is not considered significant and adverse (and I agree that it is not), what number of jobs relocated would be considered significant?

Answer: The finding that you refer to, that was made in December 1984, is one that I soon thereafter withdrew for reconsideration. As you know, the District Court in New York that was hearing the case regarding Harborside was informed in January that I was considering the basis of my determination and had vacated the determination that you refer to. The reason for my reconsideration goes directly to the point you are raising.

As the statute currently is written, I think it refers to a case-specific finding that must take all surrounding circumstances into account. Let me say that I would agree that this makes the program difficult to administer, in that if you decide to go into that kind of case-specific finding as part of the application process it introduces an element of unpredictability that is hard for applicants to deal with. For that reason, I think there is merit to taking a more arbitrary, but also more predictable, approach in the application process. In the Harborside matter, though, we are not dealing with an application but, instead, with a request to amend an already-executed grant agreement. In the Harborside matter, therefore, I think it more equitable to make a case-specific finding that takes all surrounding circumstances into account.

This refers to all circumstances regarding the economic base of the area from which the relocation is occurring. For example, a relocation of 1,300 jobs may not be "significant and adverse" to a non-distressed community, but it may well be to a community that is already distressed and suffering a pattern of job emigration. That is why I think there is no single threshold that would apply in all cases, and it is why I determined to look again at the question as it was raised by the Harborside amendment request.

Question: The Economic Development Administration uses a threshold of .5 percent of the employed population. What is a reasonable threshold?

Answer: The EDA legislation contains a provision barring loan assistance to a "relocation," but that is not what the .5 percent threshold applies to. That threshold is used under a different program for a different purpose. It is one of the measurements used by EDA to decide whether an area is suffering from severe economic dislocation that would make it eligible for assistance under EDA's Economic Adjustment Assistance Program.

In fact, if you look at the EDA provisions regarding relocation, you will find that they leave no room for any job loss at all. The EDA loan statute provides that no assistance is to be provided to establishments "relocating from one area to another," period. It makes no distinction between distressed and non-distressed areas. It says that the prohibition will not prevent assistance for establishment of a new branch or subsidiary, but the Secretary of Commerce has to find that establishment of the new branch "will not result in an increase in unemployment of the area of original location or in any other area where such entity conducts business operations." So under the EDA legislation regarding relocation, there is no tolerance for any job loss at all.

Question: What objective measure can be used to determine when a "significant and adverse" relocation of jobs has occured?

Answer: This is the same question, really. If by "objective measure" you mean numerical threshold, such as the .5 percent threshold used for another purpose that you mentioned, I don't think that there is one. You can't divorce it from all other surrounding circumstances that will impact on the determination.

SUBCOMMITTEE RECESS

Senator GARN. The subcommittee will stand in recess until Wednesday, May 1, at which time we will hear testimony from outside witnesses concerning the various agencies and their jurisdiction of their fiscal year 1986 budget.

The subcommittee is recessed.

[Whereupon, at 11:50 a.m. Thursday, April 25, the subcommittee was recessed to reconvene at 9:30 a.m. Wednesday, May 1.]

LIST OF WITNESSES, COMMUNICATIONS, AND PREPARED STATEMENTS

Page

Adams, Maj. Gen. Andrew J., Secretary, American Battle Monuments Commission 949
  Prepared statement 949
Adams, Paul, Inspector General-designate, Department of Housing and Urban Development 1247

Baldwin, Lt. Col. Roger L., Military Assistant to the Assistant Secretary of Army for Civil Works 957
Barnes, A. James, Acting Deputy Administrator, Environmental Protection Agency 1179
Boyer, William, Director of Administration, Federal Home Loan Bank Board 1003
Bragg, Jeffrey, Administrator, Federal Insurance Administration, Federal Emergency Management Agency 1091
Brown, Fravel, Special Assistant to the Director, Training and Fire Programs, Federal Emergency Management Agency 1091

Callahan, Edgar F., National Credit Union Administration 995
Casey, William, Deputy Director of Personnel, Federal Home Loan Bank Board 1003
Cooper, Josephine S., Assistant Administrator, External Affairs, Environmental Protection Agency 1179
Costanzo, Raymond J., Superintendent, Arlington National Cemetery, Army Cemeterial Expenses 957
Cox, David, Associate Director for Management Services, Selective Service System 1067
Coyle, Timothy, Deputy Assistant Secretary for Legislation, Office of Legislation and Congressional Relations, Department of Housing and Urban Development 1247

D'Amato, Hon. Alfonse M., U.S. Senator from New York, prepared statements 1180, 1271
Dean, Deborah G., Executive Assistant to the Secretary, Department of Housing and Urban Development 1247
DeBerardino, Col. Anthony, Director, Casualty and Memorial Affairs Operations Center, U.S. Army Military Personnel Center, Army Cemeterial Expenses 957
  Prepared statement 958

Early, William B., Jr., Director of Budget, General Services Administration 969
Elkins, Charles L., Acting Assistant Administrator, Air and Radiation, Environmental Protection Agency 1179

Fairbanks, Shannon, Executive Staff Director, Federal Home Loan Bank Board 1003
Filson, Charles, President, Central Liquidity Facility, National Credit Union Administration 995
Francis, Richard, President-designate, Solar Energy and Energy Conservation Bank 1247

Gallagher, Jayne, Director, Office of the Assistant Secretary for Public Affairs, Department of Housing and Urban Development 1247
Gasper, Louis, Executive Vice President, Government National Mortgage Association 1247
Giuffrida, Louis O., Director, Federal Emergency Management Agency 1091
  Prepared statement 1093
Goldstein, Bernard D., Assistant Administrator, Research and Development, Environmental Protection Agency 1179

Pages
Gray, Edwin, Chairman, Federal Home Loan Bank Board 1003
Prepared statement 1004
Greenwald, Alan, Acting Deputy Under Secretary for Intergovernmental Relations, Department of Housing and Urban Development 1247
Grigsby, Mary, Board Member, Federal Home Loan Bank Board 1003

Haas, Frank, Director, Office of District Banks, Federal Home Loan Bank Board 1003
Hale, Janet, Deputy Assistant Secretary for Policy, Financial Management and Administration, Office of Housing, Department of Housing and Urban Development 1247
Hemel, Eric, Director, Policy and Economic Research, Federal Home Loan Bank Board 1003
Hopkins, John T., Director, Division of OS Budget Services, Department of Health and Human Services 871
Hovde, Donald, Board Member, Federal Home Loan Bank Board 1003

Jett, George, General Counsel, Federal Emergency Management Agency 1091
Jones, William F.W., Comptroller, Federal Emergency Management Agency 1091

Kinghorn, C. Morgan, Comptroller, Environmental Protection Agency 1179
Kliman, Albert J., Departmental Budget Officer, Department of Housing and Urban Development 1247
Knapp, John, Acting Under Secretary, Department of Housing and Urban Development 1247
Knauer, Ms. Virginia H., Special Adviser to the President for Consumer Affairs, and Director, U.S. Office of Consumer Affairs 871
Prepared statement 873
Koch, June, Assistant Secretary for Policy Development and Research, Department of Housing and Urban Development 1247

Landergan, Brian, Comptroller, National Institute of Building Sciences 1049
Lindquist, Warren, Assistant Secretary for Public and Indian Housing, Department of Housing and Urban Development 1247
Longest, Henry L., Deputy Assistant Administrator, Water, Environmental Protection Agency 1179

Maguire, Bernard, Associate Director, National Preparedness Programs, Federal Emergency Management Agency 1091
Martin, Gerald, Executive Administrator, Federal Emergency Management Agency 1091
Martin, John C., Inspector General, Environmental Protection Agency 1179
Marvin, Frank R., Director, Management Staff, U.S. Office of Consumer Affairs 871
May, Stephen, Assistant Secretary for Legislation and Congressional Relations, Department of Housing and Urban Development 1247
McGraw, Jack W., Acting Assistant Administrator, Solid Waste and Emergency Response, Environmental Protection Agency 1179
McLoughlin, David, Deputy Associate Director, State and Local Programs and Support, Federal Emergency Management Agency 1091
Messner, Howard M., Assistant Administrator, Administration and Resources Management, Environmental Protection Agency 1179
Monroig, Antonio, Assistant Secretary for Fair Housing and Equal Opportunity, Department of Housing and Urban Development 1247
Moore, John A., Assistant Administrator, Pesticides and Toxic Substances, Environmental Protection Agency 1179
Moran, Alfred, Assistant Secretary for Community Planning and Development, Department of Housing and Urban Development 1247
Moses, Thomas, Chairman of the Board, National Institute of Building Sciences 1049
Prepared statement 1050

Nasif, Ms. Teresa, Director, Consumer Information Center, General Services Administration 969
Prepared statement 969
Pettis, Raymond J., Director, Resource Management, Office of the Adjutant General, Army Cemeterial Expenses 957

Pages

Pierce, Samuel R., Secretary, Department of Housing and Urban Development 1247
    Prepared statement 1248
Pittman, Dennis, Budget Officer, Federal Home Loan Bank Board 1003
Poling, William C., Budget Officer, National Credit Union Administration 995
Price, Courtney M., Assistant Administrator, Enforcement and Compliance Monitoring, Environmental Protection Agency 1179

Raiden, Norman, General Counsel, Federal Home Loan Bank Board 1003
Russell, Milton, Assistant Administrator, Policy, Planning and Evaluation, Environmental Protection Agency 1179

Schilling, William, Director, Examinations and Supervision, Federal Home Loan Bank Board 1003
Sebastian, Wendell, General Counsel, National Credit Union Administration 995
Smith, Julius L., Project Engineer, Arlington and Soldiers' Home National Cemetery 957
Stearns, Peter, Director, FSLIC 1003
Steeves, Robert F., Deputy Director, U.S. Office of Consumer Affairs 871

Tardy, Judith L., Assistant Secretary for Administration, Department of Housing and Urban Development 1247
Thomas, Lee M., Administrator, Environmental Protection Agency 1179
    Prepared statement 1181
Turnage, Gen. Thomas K., Director, Selective Service System 1067
    Prepared statement 1070

Walker, Gordon, Deputy Under Secretary for Field Coordination, Department of Housing and Urban Development 1247
Whiteside, William A., Executive Director, Neighborhood Reinvestment Corporation 893
    Prepared statement 894
Williams, Bill, Acting Associate Director, Emergency Operations, Federal Emergency Management Agency 1091
Wiseman, Shirley McVay, General Deputy Assistant Secretary for Housing—Deputy Federal Housing Commissioner, Department of Housing and Urban Development 1247
Withers, Lawrence, congressional relations, Federal Home Loan Bank Board 1003

Yamada, Gerald H., Acting General Counsel, Environmental Protection Agency 1179

SUBJECT INDEX

AMERICAN BATTLE MONUMENTS COMMISSION

Page

- Budget request, original 951
- Commemorative projects, major 951
- Commission members, meetings and travel of 954
- Equipment 955
- Home leave travel 952
- Local national employee pay scales 953
- Overseas strength of the dollar 954
- Personnel compensation 952
- Repairs 954
- Requested budget by installation, distribution of 955
- Saipan Monument 952

DEPARTMENT OF DEFENSE—CIVIL

DEPARTMENT OF THE ARMY

ARMY CEMETERIAL EXPENSES

- Budget request 957
  - Initial request to OMB 959
- Cemeteries, status of 966
- Civilian pay reduction, 5 percent 960
- Columbarium status 966
- Maintenance costs 965
- Military personnel support and costs 960
- Roadway maintenance 965
- Vehicle replacement 966
- Vermont, activities controlled in the State of 967
- Veterans Administration, merger with the 962
- Visitor center and parking facility 960
- Warehouse 965

DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF CONSUMER AFFAIRS

- Accomplishments, examples of 879
- Constituent Resource Exposition 890
- Consumer:
  - Federal handling of complaints 888
  - Information 876
- Consumer Information Center 888
- Effectiveness, question of 879
- Industry-USOCA cooperative publications 887
- Interagency actions 876
- National Consumer Week 890
- Priorities 875
- Reductions, fiscal year 1986 875
- Travel and transportation 889
- Vermont, activities in State of 891

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Page
Anti-pirating policy, impact of January 9 1274
Assisted housing contracts 1335
Budget:
    Freeze 1263
    Request 1247
Capital grants 1315
Comprehensive Improvement Assistance Program 1331
    Spending rates 1299
    Study 1300
Congregate Services Program 1306
Economic distress, definition of 1275
Eligible families for low-income housing assistance 1328
Emergency assistance for the homeless 1324
Emergency modernization, funds for 1283
Fair Housing Initiatives Program 1317
Fair housing budget increase 1286
Fannie Mae:
    Auditing 1284
    HUD's overseeing of activities 1284
Farmers Home Administration, abolition of 1322
Five percent pay reduction 1307
Harborside grant, status of 1293
Homeless 1301
Homeownership demonstration 1310
Housing:
    Agency support 1329
    Comparative costs 1311
    Counseling 1304
    Frustration with programs and funding mechanisms 1287
Income regulations, excess 1298
Interstate land sales 1308
Jersey City grant, action in 1295
Legislative changes, possible 1323
Legislative proposals 1308
Manufactured Home Inspection and Monitoring Program 1306
Mission 1290
New housing commitments versus housing outlays 1280
New Jersey court decision, impact of 1291
Outlays increase in 1278
People in assisted housing, number of 1281
PHA/IHA operating costs, review of 1314
Pool funds 1298
Poor paying 50 percent of income for rent, number of 1280
Public and Indian housing funding, additional 1339
Public housing:
    Fees 1333
    Financing 1330
    Notes 1320
Racial and ethnic data questions 1286
Regulations, impact of 1296
Rental Housing Development Grant Program 1303
Rural housing 1266, 1316
    Consolidation of programs 1286
Rural programs 1326
Section 8:
    And voucher fees 1313
    Ineligible tenants 1321
Section 202 interest rate 1304
Section 235 Program, restructured 1305

Page

Solar Energy and Energy Conservation Bank Program 1307
Tax reform on housing industry, impact of 1264
Temporary mortgage assistance payments 1303
Treasury decision on tax exempt status of HUD notes 1278
Urban Development Action Grant Program 1341
Urban development action grants:
  Elimination of 1269
  Formula for 1269
  Impact of grants on distressed areas 1277
  Impact of grants on jobs 1273
  Rationale for elimination of 1272
Vacancy regulations 1299
Vouchers 1302, 1325

ENVIRONMENTAL PROTECTION AGENCY

Acid rain 1221
  Controls 1194
  Integrated sulfur strategy 1192
Akron, Ohio, recycle energy system 1212
Alcohol in marine fuel 1244
Asbestos 1208, 1211
  Abatement:
    Eligibility for financial assistance 1199
    Financial assistance applications 1198
  Chrysotile fibers 1225
  Friable 1197
  Removal schedule in schools 1197
Asbestos School Hazard Abatement Act of 1984 1224
Budget freeze, impact of proposed 1187
Budget request 1179
Clean Air Act: Tall stacks rulemaking 1189, 1191, 1215
Construction Grants Program 1187, 1207
Council on Environmental Quality report on long-term research 1236
Data call-in 1233
Enforcement 1186
Federal/State cooperation 1190
Hammer clause 1215
Hazardous waste 1185
Indemnities 1213
Lead 1229
Limestone injection multistage burners 1228
New source performance standards:
  Deadline for 1202
  Funding 1203
1984 RCRA amendments: Statutory deadlines 1201
NPL sites, schedule of cleanups at 1220
Office of Exploratory Research 1237
Pesticide reregistration 1230
Radiation 1229
  Emissions 1214
Radon Assessment Program 1200
Research and development 1186
Research priorities 1238
San Diego/Tijuana project 1210
Selected EPA activities 1240
Standard plans, problems posed by 1189
State Grant Assistance Program 1186
Superfund 1185, 1239
  Available balance 1205
  Site removals 1195

Page
Temik contamination 1244
Water quality lab at Newport, Oreg 1222

FEDERAL EMERGENCY MANAGEMENT AGENCY

Appropriation:
  Bill language 1150
  Transfers 1096
Budget:
  For fiscal year 1986 1166
  Request 1091
Civil defense:
  And non-civil defense research 1149
  Budget 1115
  Fiscal year 1986 budget 1143, 1166, 1174
  Importance of program 1111
  Training essential to volunteers 1110
  Definition of 1106
Common elements for all emergencies 1109
Consultants and experts 1151
Crime insurance 1141
Crisis relocation planning 1109
Dosimeters 1125
Emergency Food and Shelter Program 1164
Emergency Management Institute 1146
FEMA Advisory Board members 1148
Fire stipends 1177
Flood insurance:
  And disaster payments 1144
  Premium increase 1177
Flood Program, buyouts for 1107
Flood plain management 1112
Four regional offices, closing of 1097
Integrated emergency management system 1106
Kanawha Valley evacuation plans 1122
Merit pay increases 1151
Multihazard research 1147
National defense stockpile 1143
National Emergency Training Center 1153
New York regional office, closing of 1092
Nuclear winter 1102
Office of the Inspector General 1113
OMB request 1125
Personnel resource augmentation 1112
Population protection:
  In any emergency 1102
  Planners 1175
Prioritization of programs 1100
Purchase of Property Program 1165
Purchase of property, criteria for 1108
Radiological:
  Defense planning and development 1124
  Emergency preparedness 1107, 1171
  Protection planning and development 1170
Regional consolidation 1156
Senior executive policy center 1145
Sole source procurement 1118
Strategic defense initiative and civil defense 1105
Telecommunications and warning funding 1098, 1158, 1172
Training program stipend 1116

FEDERAL HOME LOAN BANK BOARD

Page
Agency for International Development, loan to ... 1040
Direct investment and net worth regulations ... 1042
Equipment ... 1037
Examination function:
    Accountability for ... 1033
    Authority to delegate ... 1034
    Supervision ... 1038
Examiner:
    Staffing problem ... 1030
    Task force findings ... 1031
    Work force ... 1029
"Freddie Mac" stock ... 1041
FSLIC:
    Apportionment of non-administrative funds ... 1044
    Proposed legislation ... 1035
    Status of the fund ... 1027, 1043
FSLIC Fund, status of the ... 1027, 1043
Housing costs ... 1046
Mortgages, adjustable rate ... 1035
New regulations ... 1028
Non-bank banks ... 1040
Office of Examinations and Supervision ... 1037
OMB's view ... 1034
Pay reduction, 5 percent ... 1037
Restrictions, other ... 1033
Staff retention, impediments to ... 1032, 1038
Staffing problems ... 1045, 1046
State-chartered thrifts ... 1039
Vermont, activities in ... 1047

GENERAL SERVICES ADMINISTRATION

CONSUMER INFORMATION CENTER

Budget:
    Justification ... 975
    Major changes in fiscal year 1986 proposal ... 971
    Submission ... 991
CIC Agency Liaison Program ... 989
CIC and USOCA, merging ... 973
Government Printing Office, payments to the ... 986, 991
Interaction with other Federal agencies ... 987
Pay increase, fiscal year 1985 ... 972
Public service advertising campaigns ... 986
Publication program, low-priced ... 987
User fee:
    Collections ... 972
    Increasing to the public ... 992
    Revenue ... 973
Vermont, activities in ... 992

NATIONAL CREDIT UNION ADMINISTRATION

Brokered funds ... 1001
Budget request ... 995
Capitalization ... 996
Central Liquidity Facility:
    Loan portfolio ... 1000
    Membership ... 996
    Solidity ... 997

Page
Credit union stability 997
Deregulation 998
Insurance fund 1001
Insurance fund soundness 997
Lending limit 996
Loan program, protracted 1000
New loans, limit on 1001
Operating fund 1000

NATIONAL INSTITUTE OF BUILDING SCIENCES

Asbestos abatement and removal 1065
Housing research agenda 1066
Priority list 1063
Private-sector support 1065
Seismic design guidelines 1063
Transition year 1063
Work of Institute 1064

NEIGHBORHOOD REINVESTMENT CORPORATION

Budget:
  Effects of constraints on agency growth 907
  Request 893
Funding:
  Other sources 910
  Reduced level of 946
Homeownership Demonstration Program 945
Housing reductions, impact of proposed 910
Interest rates and Federal deficit 941
Mutual Housing Association demonstration 911
Neighborhood Housing Services new starts 945
Rural housing programs 946
Tax laws, impact of changes in 942
Vermont:
  Activities 947
  NHS's 940

SELECTIVE SERVICE SYSTEM

ADP data transactions 1085
Address verification 1083
Alternate induction method 1080
Board members, selection of 1087
Budget request 1067
Compliance 1069
Compliance Program 1083
Farrell Ice Cream list 1081
Funding 1068
Mobilization 1067
Nonregistrants:
  Number of 1081
  Prosecution of 1084
Outside contractual services 1086
Personnel 1069
Public awareness 1068
Registration 1068
Registration improvement and increased workload 1082
Training 1088